

Delta-Montrose Electric Association

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2022 and 2021



Delta-Montrose Electric Association
December 31, 2022 and 2021

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Delta-Montrose Electric Association and Subsidiary (the Association) which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of margins, patronage capital and other equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association as of December 31, 2022, and the results of its operations and cash flows for the year 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Year Audited by Other Auditors

The 2021 financial statements were audited by other auditors, and their report thereon, dated April 6, 2022, expressed an unmodified 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.

Board of Directors
Delta-Montrose Electric Association and Subsidiary

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 consolidated 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

Board of Directors
Delta-Montrose Electric Association and Subsidiary

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023, on our consideration of the Association's internal control over financial reporting and 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 the 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 the Association's internal control over financial reporting and compliance.

Other Matter

During the year ended December 31, 2022, the Association received \$5,000,000 long-term loan fund advances on loans controlled by the National Rural Utilities Cooperative Finance Corporation (NRUCFC) Mortgage and Loan agreements. The Association had no draws on its NRUCFC line of credit in 2022. The Association made \$5,000,000 of repayments on this line of credit during 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, covenants, provisions or conditions of existing loan agreements with NRUCFC. However, our audit was not directed primarily toward obtaining knowledge of such compliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the above referenced terms, covenants, provisions or conditions of the loan agreement with NRUCFC insofar as they relate to accounting matters.

FORVIS,LLP

Colorado Springs, Colorado
April 28, 2023

Delta-Montrose Electric Association
Consolidated Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Utility Plant/Fixed Assets at Cost		
Electric plant in service	\$ 265,980,059	\$ 253,091,685
Other property and equipment	23,120,064	19,959,265
Construction work in progress	16,671,400	16,042,433
	305,771,523	289,093,383
Less: accumulated provision for depreciation and amortization	119,730,706	108,378,399
	186,040,817	180,714,984
Other Property and Investment at Cost or Stated Value		
Investments in associated organizations	5,365,511	4,812,524
Other investments	80,028	96,321
	5,445,539	4,908,845
Current Assets		
Cash - general	11,657,645	9,152,503
Cash - restricted	2,035,396	15,608,896
Temporary investments	12,490,000	-
Accounts receivable (less allowance for uncollectibles of \$215,733 and \$303,255, respectively)	5,932,348	7,711,115
Accrued unbilled revenue	6,534,621	6,137,339
Materials and supplies (at average cost)	7,373,799	5,574,306
Other current and accrued assets	298,451	125,656
	46,322,260	44,309,815
Other Assets		
Deferred debits	4,998,409	5,714,764
Intangibles	99,904	146,201
	5,098,313	5,860,965
Total assets	\$ 242,906,929	\$ 235,794,609

Delta-Montrose Electric Association
Consolidated Balance Sheets (continued)
December 31, 2022 and 2021

Liabilities and Members' Equities

	<u>2022</u>	<u>2021</u>
Members' Equities		
Patronage capital	\$ 62,089,962	\$ 55,182,796
Other equities	(578,633)	478,718
	<u>61,511,329</u>	<u>55,661,514</u>
Long-term Debt		
NRUCFC mortgage notes, less current maturities	92,443,435	91,403,135
CoBank mortgage notes, less current maturities	40,223,212	37,166,544
Line of credit to be refinanced	-	10,000,000
	<u>132,666,647</u>	<u>138,569,679</u>
Current Liabilities		
Current maturities of long-term debt	5,644,812	5,208,126
Accounts payable	9,841,068	8,550,357
Accrued taxes	1,457,575	1,098,980
Accrued employee compensated absences	1,287,419	1,355,874
Accrued interest	618,608	635,280
Other current liabilities	-	25,253
	<u>18,849,482</u>	<u>16,873,870</u>
Other Liabilities		
Deferred credits	<u>29,879,471</u>	<u>24,689,546</u>
	<u>\$ 242,906,929</u>	<u>\$ 235,794,609</u>
Total liabilities and members' equities		

Delta-Montrose Electric Association
Consolidated Statements of Margins
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Residential	\$ 41,777,065	\$ 41,058,602
Irrigation sales	222,919	212,676
Small commercial	17,540,839	17,655,224
Large commercial	9,295,124	7,524,612
Street lighting and public buildings	599,116	606,995
Unbilled revenue	397,283	(215,908)
Internet services	11,825,665	9,746,405
Other operating revenues	3,893,148	4,908,192
	85,551,159	81,496,798
Operating Expenses		
Purchased power	38,477,657	38,936,797
Cost of internet services	3,273,658	2,738,400
Hydro - operation	312,831	61,015
Hydro - maintenance	101,835	95,457
Transmission - maintenance	36,869	39,378
Distribution - operation	3,816,123	3,771,283
Distribution - maintenance	3,425,717	3,048,832
Customer accounts	1,589,239	1,783,434
Customer service and information	267,288	251,731
Sales	626,044	593,360
Administrative and general	7,768,962	8,013,378
Depreciation and amortization	11,345,084	11,449,511
Other deductions	1,155,184	896,082
	72,196,491	71,678,658
Operating Margins - Before Fixed Charges	13,354,668	9,818,140
Fixed Charges		
Interest on long-term debt	4,893,084	4,719,085
Amortization of debt cost	254,687	254,687
	5,147,771	4,973,772
Operating Margins - After Fixed Charges	8,206,897	4,844,368
Other capital credits	1,006,886	822,300
	9,213,783	5,666,668
Net Operating Margins	9,213,783	5,666,668
Nonoperating Margins (Loss)		
Interest income	437,535	119,178
Gain on disposal of assets	213,097	114,994
Other nonoperating income (loss)	(180,779)	2,354,653
	469,853	2,588,825

Delta-Montrose Electric Association
Consolidated Statements of Margins (continued)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Margins Before Provision For Income Taxes	9,683,636	8,255,493
Provision For Income Tax Benefit	<u>(326,578)</u>	<u>29,202</u>
Net Margins	<u>\$ 9,357,058</u>	<u>\$ 8,284,695</u>

Delta-Montrose Electric Association
Consolidated Statements of Patronage Capital and Other Equities
Years Ended December 31, 2022 and 2021

	Patronage Capital	Other Equities	Total Equities
Balance, January 1, 2021	\$ 51,114,066	\$ (3,679,629)	\$ 47,434,437
Net margins	4,170,533	4,114,162	8,284,695
Distributions (net) and other	<u>(101,803)</u>	<u>44,185</u>	<u>(57,618)</u>
Balance, December 31, 2021	55,182,796	478,718	55,661,514
Net margins	10,493,604	(1,136,546)	9,357,058
Distributions (net) and other	<u>(3,586,438)</u>	<u>79,195</u>	<u>(3,507,243)</u>
Balance, December 31, 2022	<u>\$ 62,089,962</u>	<u>\$ (578,633)</u>	<u>\$ 61,511,329</u>

Delta-Montrose Electric Association
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net margins	\$ 9,357,058	\$ 8,284,695
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	11,345,084	11,449,511
Depreciation charged to other accounts	83,545	217,950
Capital credits - noncash	(1,006,886)	(822,300)
Paycheck Protection Program (PPP) loan forgiveness	-	(2,752,100)
Deferred charges	716,355	(330,776)
Deferred credits	5,189,925	2,991,487
Accounts receivable and unbilled revenue	1,381,485	(2,381,107)
Notes receivable	16,292	23,338
Inventories and other current assets	(1,972,288)	(1,490,745)
Payables and accrued expenses	1,538,926	2,052,526
Net cash provided by operating activities	26,649,496	17,242,479
Cash Flows from Investing Activities		
Additions to utility plant and other property and equipment	(16,874,431)	(16,980,729)
Salvage over (under) plant removal costs	119,969	(60,643)
Sale of intangibles	46,297	-
Purchase of other investments	(26,277,276)	-
Proceeds from other investments	13,787,276	-
Investments in associated organizations	453,900	421,851
Net cash used in investing activities	(28,744,265)	(16,619,521)
Cash Flows from Financing Activities		
Advances from NRUCFC - long-term debt	5,000,000	-
Payments on long-term debt - NRUCFC	(3,761,348)	(3,580,270)
Advances from CoBank - long-term debt	5,000,000	-
Payments on long-term debt - CoBank	(1,704,998)	(1,517,662)
Net activity on lines of credit	(10,000,000)	10,000,000
Capital credit retirements - cash	(3,507,243)	(58,484)
Net cash provided by (used in) financing activities	(8,973,589)	4,843,584

Delta-Montrose Electric Association
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Change in Cash and Cash Equivalents	(11,068,358)	5,466,542
Cash and Cash Equivalents, Beginning of Year	24,761,399	19,294,857
Cash and Cash Equivalents, End of Year	\$ 13,693,041	\$ 24,761,399
Cash and cash equivalents	\$ 11,657,645	\$ 9,152,503
Restricted cash	2,035,396	15,608,896
Total cash and cash equivalents and restricted cash shown on the consolidated statement of cash flows	\$ 13,693,041	\$ 24,761,399
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 5,181,443	\$ 4,740,183

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 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 Guzman Energy. Any revenues earned in excess of costs incurred are allocated to members of the Association and are reflected as patronage capital equity on the consolidated balance sheets.

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.

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.

Use of Estimates

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.

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.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Electric Revenue

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

The Association's rates for the sale of electricity are determined by the Board of Directors. The Association recognizes sales of electricity on the accrual basis.

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, 2022 and 2021 amounted to \$6,534,627 and \$6,137,339, 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, 2022 and 2021 were determined to be insignificant.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association considers cash-general, cash-restricted, and temporary cash investments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted of investments in NRUCFC select notes with maturities of less than three months.

At December 31, 2022, the Association's cash accounts exceeded federally insured limits by approximately \$2,412,700.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from customers of which the Association has an unconditional right to receive. Unbilled revenues arise when electricity has been delivered but amounts have not yet been billed due to the timing of the various billing cycles. At December 31, 2022 and 2021, unbilled revenues included on the consolidated balance sheet was \$6,534,621 and \$6,137,339, respectively. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventories

Materials and supplies inventories are valued at average unit cost.

Equities in Associated Organizations

Investments in other cooperatives' equities are carried at cost, plus the Association's share of allocated equities. For 2022 and 2021, the equity instruments were determined to not have readily determinable fair values and are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. No impairment or observable price changes were recorded during 2022 and 2021. Because these instruments do not have a readily determinable fair value, the Association does not believe it is practicable to estimate the fair value.

Long-lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Delta-Montrose Electric Association

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Income Taxes

The Association is exempt from federal income tax under Internal Revenue Service (IRS) Section 501(c)(12). The state of Colorado recognizes this exemption for state income tax purposes.

DMEAUS has been recognized as a C corporation for income tax purposes. DMEAUS accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. DMEAUS determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more-likely-than-not” means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Association and DMEAUS file income tax returns in the federal and state jurisdictions.

Regulatory Accounting

Accounting Standards Codification Section 980, *Regulated Operations*, permits some items to be deferred at the discretion of the Board of Directors, which has budgetary and rate-setting authority, if it is probable that these amounts will be refunded or recovered through future rates. As a result, the Association has recorded certain deferred credits and debits (regulatory assets).

Reclassification

Certain reclassifications have been made to the 2021 consolidated financial statements to conform to the 2022 presentation.

Note 2: Assets Pledged

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

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 3: Property, Plant, and Equipment

The major classes of plant are as follows:

	<u>2022</u>	<u>2021</u>
Utility Plant		
Hydro plant	\$ 20,093,624	\$ 20,057,920
Transmission plant	21,141,298	21,133,674
Distribution plant	193,488,533	180,643,487
General plant	<u>31,256,604</u>	<u>31,256,604</u>
Electric plant in service	<u>265,980,059</u>	<u>253,091,685</u>
Other property and equipment	23,120,064	19,959,265
Construction work in progress	<u>16,671,400</u>	<u>16,042,433</u>
	<u>305,771,523</u>	<u>289,093,383</u>
Accumulated depreciation		
Hydro plant	(5,116,933)	(4,567,524)
Transmission plant	(3,287,602)	(2,770,457)
Distribution plant	(79,954,681)	(74,279,079)
General plant	(20,330,089)	(18,772,345)
Other property and equipment	<u>(11,041,401)</u>	<u>(7,988,994)</u>
	<u>(119,730,706)</u>	<u>(108,378,399)</u>
Net Utility Plant	<u>\$ 186,040,817</u>	<u>\$ 180,714,984</u>

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, 2022 was \$11,428,629, of which \$11,345,084 was charged to depreciation expense, and \$83,545 allocated to other accounts. Depreciation for the year ended December 31, 2021 was \$11,667,461, of which \$11,449,511 was charged to depreciation expense and \$217,950 allocated to other accounts.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 4: Investments

Investments in associated organizations consist of the following:

	<u>2022</u>	<u>2021</u>
NRUCFC		
Capital term certificates	\$ 1,238,379	\$ 1,258,507
Patronage capital	994,599	888,083
Membership	1,000	1,000
Western United Electric Supply Corp		
Patronage capital	2,038,216	1,677,763
Federated Insurance		
Patronage capital	415,083	370,975
Other	678,234	616,196
	<u>\$ 5,365,511</u>	<u>\$ 4,812,524</u>

Other investments consist of the following:

	<u>2022</u>	<u>2021</u>
Notes receivable - geothermal loans	<u>\$ 80,028</u>	<u>\$ 96,321</u>

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 was set at the market rate at the time of execution.

Note 5: Restricted Cash and Temporary Investments

Restricted cash consists of the following:

	<u>2022</u>	<u>2021</u>
Education and charitable fund	\$ 171,497	\$ 1,194,780
Power supply deposits - NITS	423,853	423,853
Uncompahgre Valley Water Users Association	1,413,046	1,240,263
ReConnect 2 pledged deposit account	27,000	-
Deferred revenue	-	12,750,000
	<u>\$ 2,035,396</u>	<u>\$ 15,608,896</u>

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

This temporary investment is presented on the consolidated balance sheets as follows:

	2022	2021
NRUCFC	\$ 12,490,000	\$ -

The Association has adopted and amended a Deferred Revenue Plan beginning in 2012. As a result of that plan, \$12,750,000 of cash was considered restricted as of December 31, 2021. During 2022, the funds were invested in various NRUCFC investment options and removed from the restricted cash line item. See Note 13 for further information on this plan.

Also, during 2022 items previously classified as restricted for the education and charitable fund purposes were invested in NRUCFC investment options. The amount invested at December 31, 2022 was \$900,000.

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, 2022 and 2021, UVWUA's share was \$1,413,046 and \$1,240,263, 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.

Note 6: Materials and Supplies (At Average Cost)

Materials and supplies consist of the following:

	2022	2021
Electric inventory	\$ 2,353,861	\$ 1,898,586
Special equipment inventory	1,347,922	1,386,809
Vehicle inventory	43,302	45,732
Fiber optic inventory	2,446,759	1,383,402
Other	1,181,955	859,777
	\$ 7,373,799	\$ 5,574,306

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 7: Deferred Debits

Deferred debits consist of the following:

	2022	2021
Unamortized debt cost	\$ 3,013,795	\$ 3,268,482
Business development costs	-	66,196
Deferred tax asset (see Note 9)	1,487,500	1,814,077
Other	497,114	566,009
	\$ 4,998,409	\$ 5,714,764

In 2019, the Association paid off all FFB debt early by refinancing it with NRUCFC, 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, 2022 and 2021.

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 \$66,196 and \$132,340 during the years ended December 31, 2022 and 2021, respectively. The deferred costs are fully amortized as of December 31, 2022.

Note 8: Intangibles

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 2022 and 2021, a portion of the netblock was sold and as a result the net book value of the netblock held by DMEAUS is \$99,904 and \$146,201, 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.

Note 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, 2022 and 2021, the Association qualified for exemption. However, the Association is 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 for 2022 and 2021 consist of 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.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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, 2022, the total NOL carryovers available to each entity are as follows:

	Pre - 2018 (20 Year Carryover)	Begins Expiring	Post - 2017 (Indefinite Carryover)	Total
DMEA	\$ -		\$ 645,148	\$ 645,148
DMEAUS	<u>2,024,775</u>	2033	<u>13,375,248</u>	<u>15,400,023</u>
	<u>\$ 2,024,775</u>		<u>\$ 14,020,396</u>	<u>\$ 16,045,171</u>

Income taxes are provided for tax effects of transactions reported in the consolidated financial statements and consist 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.

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.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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:

	2022	2021
Net Noncurrent Deferred Income Taxes		
Federal		
Deferred tax asset	\$ 3,674,185	\$ 4,049,807
Deferred tax liability	<u>(2,444,354)</u>	<u>(2,571,336)</u>
	<u>1,229,831</u>	<u>1,478,471</u>
State		
Deferred tax asset	769,815	853,939
Deferred tax liability	<u>(512,146)</u>	<u>(518,333)</u>
	<u>257,669</u>	<u>335,606</u>
Total noncurrent deferred income tax asset	<u><u>\$ 1,487,500</u></u>	<u><u>\$ 1,814,077</u></u>

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

	2022	2021
Federal and state income tax		
Deferred federal tax benefit (expense)	\$ (248,641)	\$ (56,765)
Deferred state tax benefit (expense)	(77,937)	1,695
Increase in valuation allowance	<u>-</u>	<u>84,272</u>
	<u><u>\$ (326,578)</u></u>	<u><u>\$ 29,202</u></u>

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 position for DMEAUS is 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, 2022 and 2021.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 10: Return of Capital

The security and loan agreements underlying certain notes contain certain restrictions on distributions to patrons. The Association may make a distribution, in any amount, as long as the total equity of the Association is at least 20% of its total assets. In the event that total equity of the Association will be less than 20% of total assets, the Association may make a distribution in an amount up to 30% of the Association's total margins for the preceding calendar year. In addition, the Association is required to maintain certain financial ratios as outlined within the loan agreement. The equities and margins of the Association represent 26.35% and 23.61% of the total assets as of December 31, 2022 and 2021, respectively. Additionally, the Association retired \$3,586,438 and \$101,803 during the years ended December 31, 2022 and 2021, respectively. The Association retires capital on a combination of LIFO/FIFO (last-in, first-out/first-in, first-out) methods.

Note 11: Mortgage Notes

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

	<u>2022</u>	<u>2021</u>
NRUCFC; Fixed Rate Notes Ranging from 2.78% to 5.20% in 2022 and 2.81% to 5.20% in 2021	\$ 82,853,254	\$ 80,622,289
NRUCFC; Fixed Rate CREBs Notes at 4.30%	13,416,873	14,409,186
CoBank; Fixed Rate Notes		
3.56% Note	2,510,619	2,728,322
3.70% Note	5,937,901	6,343,454
3.77% Note	6,317,791	6,704,885
3.84% Note	4,874,788	-
4.29% Note	13,381,233	13,718,894
4.44% Note	4,500,030	4,609,323
4.85% Note	4,518,970	4,641,452
Line of credit to be refinanced	-	10,000,000
	<u>138,311,459</u>	<u>143,777,805</u>
Less current maturities	<u>(5,644,812)</u>	<u>(5,208,126)</u>
	<u>\$ 132,666,647</u>	<u>\$ 138,569,679</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, 2022 and 2021, the Association has outstanding notes of \$13,416,873 and \$14,409,186, respectively.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

As of December 31, 2022, the annual maturities of long-term debt due are as follows:

2023	\$ 5,644,812
2024	5,903,532
2025	6,136,764
2026	6,367,318
2027	6,599,162
Thereafter	<u>107,659,871</u>
	<u><u>\$ 138,311,459</u></u>

As of December 31, 2022 and 2021, the Association has unadvanced funds available of \$29,000,000 and \$39,000,000, respectively.

Note 12: Lines of Credit

The Association has a perpetual \$5,000,000 line of credit for short-term financing with NRUCFC and a \$5,000,000 line of credit with CoBank, both at variable interest rates. At December 31, 2022 and 2021, the Association had \$0 and \$10,000,000, respectively, outstanding on these lines of credit. Pursuant to the Association's utilization of long-term funds to repay these amounts, \$10,000,000 was classified as long-term debt on the consolidated balance sheets at December 31, 2021. The amounts were converted to long-term debt during 2022.

Note 13: Deferred Credits

Deferred credits consist of the following:

	<u>2022</u>	<u>2021</u>
Customer advances in aid to construction	\$ 133,639	\$ 134,965
Energy prepayments	363,509	609,691
Unclaimed capital credits	1,952,742	1,200,803
Deferred revenue plan	15,000,000	12,750,000
DMEAUS deferred revenue	1,948,842	1,846,213
Deferred revenue - grants	9,598,665	7,164,589
Deferred revenue - IRU fiber	833,064	891,525
Other	49,010	91,760
	<u>\$ 29,879,471</u>	<u>\$ 24,689,546</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 balance of this deferred revenue as of December 31, 2022 and 2021 is \$15,000,000 and \$12,750,000, respectively, and will be recognized over the years of 2023-2026.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 14: 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's contributions to the RS Plan in 2022 and 2021 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 \$696,531 in 2022 and \$833,776 in 2021. There have been no significant changes that affect the comparability of the 2022 and 2021 contributions.

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, 2022 and 2021 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 \$646,843 and \$549,529 for the years ended December 31, 2022 and 2021, respectively.

Note 15: Litigation, Commitments, and Contingencies

Management represents there is no pending or threatened litigation against the Association at December 31, 2022 that would materially affect the Association's financial condition.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 16: Related-party Transactions and Power Supply Arrangements

The Association's wholesale power contract is with Guzman Energy and is in effect until 2033. Purchased power amounted to \$38,477,657 and \$38,936,797 for 2022 and 2021, respectively.

The Association is also a member (and, therefore, part owner) of NRUCFC. The Association finances utility plant additions (see Note 13) and purchases commercial paper and select term notes through NRUCFC. Equities in associated organizations include \$994,599 and \$888,083 of patronage capital in NRUCFC at December 31, 2022 and 2021, respectively. Revenue is recognized from the investment when the Association is notified of their patronage allocation, and the investment account is increased accordingly.

The Association has executed a subscription agreement with NRUCFC. As of December 31, 2022 and 2021, the Association has invested \$1,238,379 and \$1,258,507 in 3% to 5% subordinate certificates, respectively, which mature from 2025 to 2080.

The Association is also a member (and, therefore, part owner) of CoBank. Equities in associated organizations include \$366,259 and \$308,874 of patronage capital in CoBank at December 31, 2022 and 2021, respectively. Revenue is recognized from the investment when the Association is notified of their patronage allocation, and the investment account is increased accordingly.

The Association is also a member (and, therefore, part owner) of Western United Electric Supply Corporation (Western United). The Association purchases utility plant materials from Western United. Equities in associated organizations include \$2,038,216 and \$1,677,763 of patronage capital in Western United at December 31, 2022 and 2021, respectively. Revenue is recognized from the investment when the Association is notified of their patronage allocation, and the investment account is increased accordingly. Purchases from Western United were \$5,601,268 and \$4,863,060 in 2022 and 2021, respectively.

The Association is also a member (and, therefore, part owner) of Federated Rural Electric Insurance Exchange (Federated). Equities in associated organizations include \$415,083 and \$370,975 of patronage capital in Federated at December 31, 2022 and 2021, respectively. Revenue is recognized from the investment when the Association is notified of their patronage allocation, and the investment account is increased accordingly.

Delta-Montrose Electric Association
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 17: Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Association adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Association elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Association elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all leases. Also, the Association elected to keep short-term leases with an initial term of 12 months or less off the consolidated balance sheet. The Association did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022. The standard did not significantly affect the consolidated balance sheets, consolidated statements of margins, or consolidated cash flows.

Note 18: Subsequent Events

The Association's management has evaluated subsequent events through April 28, 2023, the date which the financial statements were available for issue.

Consolidating Information

Delta-Montrose Electric Association
Consolidating Schedule – Balance Sheet Information
December 31, 2022

Assets

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
Utility Plant/Fixed Assets at Cost				
Electric plant in service	\$ 265,980,059	\$ -	\$ -	\$ 265,980,059
Other property and equipment	1,497,804	21,622,260	-	23,120,064
Construction work in progress	14,170,283	2,501,117	-	16,671,400
	<u>281,648,146</u>	<u>24,123,377</u>	<u>-</u>	<u>305,771,523</u>
Less: accumulated provision for depreciation and amortization	109,824,452	9,906,254	-	119,730,706
	<u>171,823,694</u>	<u>14,217,123</u>	<u>-</u>	<u>186,040,817</u>
Other Property and Investments at Cost or Stated Value				
Investments in associated organizations	5,345,890	19,621	-	5,365,511
Investments in affiliated company	(3,773,156)	-	3,773,156	-
Long-term note receivable	13,793,845	-	(13,713,817)	80,028
	<u>15,366,579</u>	<u>19,621</u>	<u>(9,940,661)</u>	<u>5,445,539</u>
Current Assets				
Cash - general	11,099,453	558,192	-	11,657,645
Cash - restricted	2,035,396	-	-	2,035,396
Temporary investments	12,490,000	-	-	12,490,000
Current portion of notes receivable	401,433	-	(401,433)	-
Accounts receivable (less allowance for uncollectible of \$210,270 and \$5,503, respectively)	5,298,187	634,161	-	5,932,348
Accounts receivable - affiliated	11,202,700	5,595,755	(16,798,455)	-
Accrued unbilled revenue	6,534,621	-	-	6,534,621
Materials and supplies (at average cost)	6,191,844	1,181,955	-	7,373,799
Other current and accrued assets	217,563	80,888	-	298,451
	<u>55,471,197</u>	<u>8,050,951</u>	<u>(17,199,888)</u>	<u>46,322,260</u>
Other Assets				
Deferred debits	3,510,909	1,487,500	-	4,998,409
Intangibles	-	99,904	-	99,904
	<u>3,510,909</u>	<u>1,587,404</u>	<u>-</u>	<u>5,098,313</u>
Total assets	<u>\$ 246,172,379</u>	<u>\$ 23,875,099</u>	<u>\$ (27,140,549)</u>	<u>\$ 242,906,929</u>

Delta-Montrose Electric Association
Consolidating Schedule – Balance Sheet Information (continued)
December 31, 2022

Liabilities and Members' Equities

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
Members' Equities				
Patronage capital	\$ 62,089,962	\$ -	\$ -	\$ 62,089,962
Other equities	(578,633)	(3,773,156)	3,773,156	(578,633)
	<u>61,511,329</u>	<u>(3,773,156)</u>	<u>3,773,156</u>	<u>61,511,329</u>
Long-term Debt				
NRUCFC mortgage notes less current maturities	92,443,435	-	-	92,443,435
CoBank mortgage notes less current maturities	40,223,212	-	-	40,223,212
DMEA note payable less current maturities	-	13,713,817	(13,713,817)	-
	<u>132,666,647</u>	<u>13,713,817</u>	<u>(13,713,817)</u>	<u>132,666,647</u>
Current Liabilities				
Current maturities of long-term debt	5,644,812	401,433	(401,433)	5,644,812
Accounts payable	9,568,036	273,032	-	9,841,068
Accounts payable - affiliated	5,595,755	11,202,700	(16,798,455)	-
Accrued taxes	1,349,144	108,431	-	1,457,575
Accrued employee compensated absences	1,287,419	-	-	1,287,419
Accrued interest	618,608	-	-	618,608
	<u>24,063,774</u>	<u>11,985,596</u>	<u>(17,199,888)</u>	<u>18,849,482</u>
Other Liabilities				
Deferred credits	27,930,629	1,948,842	-	29,879,471
	<u>27,930,629</u>	<u>1,948,842</u>	<u>-</u>	<u>29,879,471</u>
Total liabilities and members' equities	<u>\$ 246,172,379</u>	<u>\$ 23,875,099</u>	<u>\$ (27,140,549)</u>	<u>\$ 242,906,929</u>

Delta-Montrose Electric Association
Consolidating Schedule – Statement of Margins
and Patronage Capital Information
Year Ended December 31, 2022

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
Operating Revenues				
Residential	\$ 41,777,065	\$ -	\$ -	\$ 41,777,065
Irrigation sales	222,919	-	-	222,919
Small commercial	17,540,839	-	-	17,540,839
Large commercial	9,295,124	-	-	9,295,124
Street lighting and public buildings	599,116	-	-	599,116
Unbilled revenue	397,283	-	-	397,283
Internet services	-	11,871,414	(45,749)	11,825,665
Other operating revenues	6,509,311	<u>(23,560)</u>	<u>(2,592,603)</u>	<u>3,893,148</u>
Total operating revenues	<u>76,341,657</u>	<u>11,847,854</u>	<u>(2,638,352)</u>	<u>85,551,159</u>
Operating Expenses				
Purchase power	38,477,657	-	-	38,477,657
Cost of internet services	-	5,866,261	(2,592,603)	3,273,658
Hydro - operation	312,831	-	-	312,831
Hydro - maintenance	101,835	-	-	101,835
Transmission -maintenance	36,869	-	-	36,869
Distribution - operating	3,816,123	-	-	3,816,123
Distribution - maintenance	3,425,717	-	-	3,425,717
Customer accounts	1,589,239	-	-	1,589,239
Customer service and information	267,288	-	-	267,288
Sales	258,971	367,073	-	626,044
Administrative and general	6,887,865	926,846	(45,749)	7,768,962
Depreciation and amortization	8,437,348	2,907,736	-	11,345,084
Other deductions	<u>1,088,535</u>	<u>66,649</u>	<u>-</u>	<u>1,155,184</u>
Total operating expenses	<u>64,700,278</u>	<u>10,134,565</u>	<u>(2,638,352)</u>	<u>72,196,491</u>
Operating Margins - Before Fixed Charges	11,641,379	1,713,289	-	13,354,668
Fixed Charges				
Interest on long-term debt	4,893,084	579,538	(579,538)	4,893,084
Amortization of debt cost	<u>254,687</u>	<u>-</u>	<u>-</u>	<u>254,687</u>
Operating Margins - After Fixed Charges	6,493,608	1,133,751	579,538	8,206,897
Other capital credits	<u>993,022</u>	<u>13,864</u>	<u>-</u>	<u>1,006,886</u>
Net Operating Margins	<u>7,486,630</u>	<u>1,147,615</u>	<u>579,538</u>	<u>9,213,783</u>
Nonoperating Margins (Loss)				
Interest income	1,017,073	-	(579,538)	437,535
Affiliated company - income from operations	1,086,201	-	(1,086,201)	-
Gain on disposal of assets	-	213,097	-	213,097
Other nonoperating income (loss)	<u>(232,846)</u>	<u>52,067</u>	<u>-</u>	<u>(180,779)</u>
	<u>1,870,428</u>	<u>265,164</u>	<u>(1,665,739)</u>	<u>469,853</u>

Delta-Montrose Electric Association
Consolidating Schedule – Statement of Margins
and Patronage Capital Information (continued)
Year Ended December 31, 2022

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Net Margins Before				
Provision For Income Taxes	<u>9,357,058</u>	<u>1,412,779</u>	<u>(1,086,201)</u>	<u>9,683,636</u>
Provision For Income Tax Benefit (Expense)	<u>-</u>	<u>(326,578)</u>	<u>-</u>	<u>(326,578)</u>
Net Margins	<u><u>9,357,058</u></u>	<u><u>1,086,201</u></u>	<u><u>(1,086,201)</u></u>	<u><u>9,357,058</u></u>

Delta-Montrose Electric Association
Consolidating Schedule – Balance Sheet Information
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
	<u>268,546,374</u>	<u>20,547,009</u>	<u>-</u>	<u>289,093,383</u>
Less: accumulated provision for depreciation and amortization	101,378,812	6,999,587	-	108,378,399
	<u>167,167,562</u>	<u>13,547,422</u>	<u>-</u>	<u>180,714,984</u>
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	-
Other investments	14,304,098	-	(14,207,777)	96,321
	<u>14,247,349</u>	<u>9,916</u>	<u>(9,348,420)</u>	<u>4,908,845</u>
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)	-
Accounts receivable (less allowance for uncollectible 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
	<u>48,018,672</u>	<u>2,189,430</u>	<u>(5,898,287)</u>	<u>44,309,815</u>
Other Assets				
Deferred debits	3,834,490	1,880,274	-	5,714,764
Intangibles	-	146,201	-	146,201
	<u>3,834,490</u>	<u>2,026,475</u>	<u>-</u>	<u>5,860,965</u>
Total assets	<u>\$ 233,268,073</u>	<u>\$ 17,773,243</u>	<u>\$ (15,246,707)</u>	<u>\$ 235,794,609</u>

Delta-Montrose Electric Association
Consolidating Schedule – Balance Sheet Information (continued)
December 31, 2021

Liabilities and Members' Equities

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
Members' Equities				
Patronage capital	\$ 55,182,796	\$ -	\$ -	\$ 55,182,796
Other equities	478,718	(4,859,357)	4,859,357	478,718
	<u>55,661,514</u>	<u>(4,859,357)</u>	<u>4,859,357</u>	<u>55,661,514</u>
Long-term Debt				
NRUCFC 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)	-
Line of credit to be refinanced	10,000,000	-	-	10,000,000
	<u>138,569,679</u>	<u>14,207,777</u>	<u>(14,207,777)</u>	<u>138,569,679</u>
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
	<u>16,193,547</u>	<u>6,578,610</u>	<u>(5,898,287)</u>	<u>16,873,870</u>
Other Liabilities				
Deferred credits	22,843,333	1,846,213	-	24,689,546
	<u>22,843,333</u>	<u>1,846,213</u>	<u>-</u>	<u>24,689,546</u>
Total liabilities and members' equities	<u>\$ 233,268,073</u>	<u>\$ 17,773,243</u>	<u>\$ (15,246,707)</u>	<u>\$ 235,794,609</u>

Delta-Montrose Electric Association
Consolidating Schedule – Statement of Margins
and Patronage Capital Information
Year Ended December 31, 2021

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
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
	<u>73,975,413</u>	<u>10,121,190</u>	<u>(2,599,805)</u>	<u>81,496,798</u>
Operating Expenses				
Purchase power	38,936,797	-	-	38,936,797
Cost of internet services	-	5,306,542	(2,568,142)	2,738,400
Hydro - operation	61,015	-	-	61,015
Hydro - maintenance	95,457	-	-	95,457
Transmission - maintenance	39,378	-	-	39,378
Distribution - operating	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
	<u>64,831,112</u>	<u>9,447,351</u>	<u>(2,599,805)</u>	<u>71,678,658</u>
Operating Margins - Before Fixed Charges	9,144,301	673,839	-	9,818,140
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 - After Fixed Charges	4,170,529	99,243	574,596	4,844,368
Other capital credits	807,889	14,411	-	822,300
Net Operating Margins	<u>4,978,418</u>	<u>113,654</u>	<u>574,596</u>	<u>5,666,668</u>
Nonoperating Margins				
Interest income	693,774	-	(574,596)	119,178
Affiliated company - income from operations	213,452	-	(213,452)	-
Gain on disposal of assets	44,398	70,596	-	114,994
Other nonoperating income	2,354,653	-	-	2,354,653
	<u>3,306,277</u>	<u>70,596</u>	<u>(788,048)</u>	<u>2,588,825</u>

Delta-Montrose Electric Association
Consolidating Schedule – Statement of Margins
and Patronage Capital Information (continued)
Year Ended December 31, 2021

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Net Margins Before Provision For Income Taxes	8,284,695	184,250	(213,452)	8,255,493
Provision For Income Tax Benefit	-	29,202	-	29,202
Net Margins	<u>\$ 8,284,695</u>	<u>\$ 213,452</u>	<u>\$ (213,452)</u>	<u>\$ 8,284,695</u>

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards* Independent Auditor's Report

Board of Directors
Delta-Montrose Electric Association
Montrose, Colorado

We have audited, 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, the consolidated financial statements of Delta-Montrose Electric Association (the Association), which comprise the Association's consolidated balance sheet as of December 31, 2022, and the related consolidated statements of margins and patronage capital and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2023. The financial statements of DMEAUS which is included in the Association's consolidated financial statements, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with DMEAUS.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
Delta-Montrose Electric Association

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

Colorado Springs, Colorado
April 28, 2023