



ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA

FINANCIAL STATEMENTS

December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Energy Cooperative Association of Pennsylvania
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of the Energy Cooperative Association of Pennsylvania, which comprise the balance sheet as of December 31, 2020, and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by cooperative management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of Energy Cooperative Association of Pennsylvania as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Energy Cooperative Association of Pennsylvania as of December 31, 2019 were audited by other auditors whose report dated June 2, 2020 expressed an unmodified opinion on those statements.

Correction of an Error

As described in Note 12 to the financial statements, a certain error resulting in the misstatement of patronage capital at December 31, 2019 was discovered by management of Energy Cooperative Association of Pennsylvania during the current year. Accordingly, an adjustment has been made to patronage capital as of the beginning of the year to correct the error. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Wegner CPAs LLP". The signature is written in a cursive, flowing style.

Wegner CPAs, LLP
Madison, Wisconsin
June 10, 2021

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
BALANCE SHEETS
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 958,851 | \$ 496,693 |
| Cash - escrow | 220,040 | 387,061 |
| Accounts receivable, net | 146,025 | 208,900 |
| Prepaid expenses | 16,640 | 34,079 |
| Total current assets | <u>1,341,556</u> | <u>1,126,733</u> |
| Property and equipment, net | 14,564 | 17,042 |
| OTHER ASSETS | | |
| Deposits | 8,500 | 8,500 |
| Intangibles, net | 12,110 | 27,731 |
| Total other assets | <u>20,610</u> | <u>36,231</u> |
| Total assets | <u><u>\$ 1,376,730</u></u> | <u><u>\$ 1,180,006</u></u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 141,977 | \$ 123,602 |
| Accrued expenses | 436,500 | 462,274 |
| Total liabilities | <u>578,477</u> | <u>585,876</u> |
| MEMBERS' EQUITY | | |
| Patronage capital | 777,919 | 573,796 |
| Reserve capital accounts | 20,334 | 20,334 |
| Total members' equity | <u>798,253</u> | <u>594,130</u> |
| Total liabilities and members' equity | <u><u>\$ 1,376,730</u></u> | <u><u>\$ 1,180,006</u></u> |

See accompanying notes.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--|-------------------|-------------------|
| REVENUE | | |
| Electricity sales | \$ 2,324,171 | \$ 2,389,318 |
| Natural gas sales | 221,777 | 119,919 |
| Heating oil commissions | 109,778 | 126,489 |
| Membership fees, net of returns | 1,106 | 170 |
| Total revenue | 2,656,832 | 2,635,896 |
| OPERATING EXPENSES | | |
| Electricity purchases | 1,419,640 | 1,637,501 |
| Natural gas purchases | 142,402 | 75,110 |
| General and administrative expenses | 1,008,643 | 915,862 |
| Total operating expenses | 2,570,685 | 2,628,473 |
| Income from operations | 86,147 | 7,423 |
| OTHER INCOME (EXPENSES) | | |
| PPP forgiveness income | 116,716 | - |
| Interest income | 1,160 | 2,881 |
| Miscellaneous | 112 | 150 |
| Interest expense | (12) | - |
| Special events, net | - | (5,209) |
| Total other income (expenses) | 117,976 | (2,178) |
| Net income | 204,123 | 5,245 |
| Patronage capital, beginning of year - as restated | 573,796 | 568,551 |
| Patronage capital, end of year | \$ 777,919 | \$ 573,796 |

See accompanying notes.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 204,123 | \$ 5,245 |
| Adjustments to reconcile net income to net cash flows from operating activities | | |
| Depreciation | 5,869 | 4,426 |
| Amortization | 15,621 | 18,777 |
| Decrease in assets | | |
| Accounts receivable | 62,875 | 25,214 |
| Prepaid expenses | 17,439 | 9,157 |
| Performance assurances | - | 99,517 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 18,375 | 13,973 |
| Accrued expenses | (25,774) | (39,622) |
| Net cash flows from operating activities | 298,528 | 136,687 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (3,391) | (12,282) |
| Purchases of intangible assets | - | (5,400) |
| Net cash flows from investing activities | (3,391) | (17,682) |
| Net change in cash and cash equivalents | 295,137 | 119,005 |
| Cash and cash equivalents - beginning of year | 883,754 | 764,749 |
| Cash and cash equivalents at end of year | <u>\$ 1,178,891</u> | <u>\$ 883,754</u> |
| COMPOSITION OF CASH AND CASH EQUIVALENTS | | |
| Cash | \$ 958,851 | \$ 496,693 |
| Cash - escrow | 220,040 | 387,061 |
| Cash and cash equivalents | <u>\$ 1,178,891</u> | <u>\$ 883,754</u> |

See accompanying notes.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Energy Cooperative Association of Pennsylvania (Cooperative) is a nonprofit cooperative organized to help its members (those who pay energy bills in southeastern Pennsylvania) reduce their energy-related expenditures and to promote the use and development of renewable energy. The Cooperative is a licensed electricity and gas supplier in Pennsylvania. The Cooperative provides renewable electricity, renewable natural gas, and home heating oil to its members. The Cooperative works to educate members about how to reduce their energy usage and to better understand electric deregulation and energy-related issues.

Cash – Escrow

In accordance with the agreement with its credit sleeve counterparty that provides working capital for payments to the Cooperative's wholesale electricity vendors, the Cooperative has established an escrow account into which utilities make deposits after the Cooperative's members are billed. In September 2020 the Cooperative switched to a new credit sleeve.

Accounts Receivable

Accounts receivable includes trade accounts receivable and unbilled charges which consist of electricity, natural gas, fees, and commission fees. Trade credit is generally extended on a short-term basis; thus, trade accounts receivables generally do not bear interest. Accounts receivable are stated at the amount management expects to collect from balances outstanding. Management provides for probable uncollectible amounts through a charge to operations and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. There was no allowance for doubtful accounts as of December 31, 2020 and 2019.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Capital expenditures in excess of \$500 are recorded as property and equipment. Maintenance, repairs, and minor renewals are charged to expenses when incurred.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets as follows:

| | |
|---------------------------------|---------|
| Computer equipment and software | 5 years |
| Furniture and office equipment | 7 years |

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Website design is amortized over three years and customer lists are amortized over fifteen years. The estimated useful lives of intangible assets are reviewed annually to determine if events or circumstances warrant a change in the remaining useful life of an asset. In addition, intangible assets are reviewed for impairment when events or circumstances indicate their carrying amount may not be recoverable. No changes or impairments were noted for 2020 and 2019.

Income Taxes

The Cooperative qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code and is exempt from federal, state, and local income taxes as long as more than 85% of revenue is received from its members. The Cooperative is considered a cooperative corporation for Pennsylvania state tax purposes and must pay a gross receipts tax on receipts from the sale of electric energy at retail to end-use customers in Pennsylvania. Applicable taxes, totaling approximately \$134,017 and \$149,000 for 2020 and 2019, have been included as a component of electricity purchases in the statements of operations.

Revenue Recognition

The Cooperative buys electricity and natural gas on the wholesale market and sells directly to its members. Revenue generated from contracts with members for electricity and natural gas is recognized as a single performance obligation satisfied over time and is recognized at fixed or variable rates as renewable electricity or renewable natural gas is delivered to the customers during the month. The Cooperative generally has a right to consideration in an amount that corresponds directly with the value to the customers of the Cooperative's performance completed to date and has elected to recognize revenue for its sales of electricity and natural gas, billed monthly, using the invoice practical expedient.

The Cooperative facilitates the supply of home heating oil for its members. The Cooperative has agreements with select home heating oil retailers. Retailers agree to pay the Cooperative a per gallon commission for home heating oil delivered to its members. Heating oil commission revenue is recognized at a point in time.

Sales tax, when applicable, is collected and remitted to the respective jurisdictions. Revenue is reported net of any sales tax.

The Cooperative has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are most significantly affected by the concentration of the Cooperative's members consuming renewable energy in Southeastern Pennsylvania.

Advertising

The Cooperative expenses all advertising costs as incurred. Advertising expense for 2020 and 2019 was \$91,000 and \$35,831.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Date of Management’s Review

Management has evaluated subsequent events through June 10, 2021, the date which the financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 was as follows:

| | 2020 | 2019 |
|---------------------------------|-----------|-----------|
| Computer equipment and software | \$ 27,470 | \$ 24,080 |
| Furniture and office equipment | 14,131 | 14,131 |
| Less accumulated depreciation | 27,037 | 21,169 |
| Property and equipment, net | \$ 14,564 | \$ 17,042 |

NOTE 3 – LINE OF CREDIT

The Cooperative maintains a revolving line of credit with a financial institution in the amount of \$350,000 with interest at the bank's prime rate. The effective rate at December 31, 2020 was 3.25%. The line of credit matures in August 2021. The line of credit is collateralized by all assets of the Cooperative. There were no outstanding balance on the line of credit at December 31, 2020 and 2019.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 – INTANGIBLE ASSETS

Intangible assets at December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|-------------------------------|-----------|-----------|
| Customer list | \$ 10,000 | \$ 10,000 |
| Website design | 94,399 | 94,399 |
| Less accumulated amortization | 92,289 | 76,668 |
| Intangibles, net | \$ 12,110 | \$ 27,731 |

NOTE 5 – MEMBERSHIP EQUITY

Patronage capital represents the Cooperative's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws.

Reserve capital accounts represent the account balances of members of the Cooperative that were also members of the predecessor cooperative, the Energy Cooperative of Philadelphia, who had existing reserve capital accounts which were transferred to the Cooperative. Reserve capital will not be returned to members until the Cooperative is dissolved or as otherwise prescribed by statute.

NOTE 6 – CONCENTRATIONS

Credit Risk

The Cooperative maintains cash balances at financial institutions where the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At December 31, 2020 and 2019, the Cooperative had cash balances in excess of FDIC insurance limits by approximately \$574,000 and \$160,000. The Cooperative has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash.

Purchasing Risk

The Cooperative purchases 100% of its electricity from two third-party wholesale suppliers.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 7 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses on the statements of operations for 2020 and 2019 were comprised of the following:

| | 2020 | 2019 |
|------------------------------|--------------|------------|
| Salaries | \$ 545,112 | \$ 497,594 |
| Advertising and promotion | 124,933 | 63,851 |
| Employee benefits | 90,708 | 76,008 |
| Rent | 70,818 | 77,586 |
| Information technology | 52,244 | 52,374 |
| Payroll taxes | 46,099 | 44,146 |
| Professional fees | 32,094 | 30,371 |
| Amortization | 15,621 | 18,777 |
| Insurance | 7,405 | 25,100 |
| Training and conferences | 6,949 | 4,823 |
| Depreciation | 5,869 | 4,426 |
| Office supplies and expenses | 4,247 | 8,889 |
| Bank service charges | 2,555 | 916 |
| Travel | 1,200 | 4,497 |
| Membership expenses | 1,166 | 5,676 |
| Dues and subscriptions | 932 | 828 |
| Small equipment | 691 | - |
| | \$ 1,008,643 | \$ 915,862 |

NOTE 8 – OPERATING LEASE

The Cooperative leases office space under an arrangement that expires in November 2021 and requires monthly payments of \$6,757.

NOTE 9 – RELATED PARTIES

The Cooperative uses professional service firms in which board members and their spouses are employed. The firms provided services totaling approximately \$108,000 and \$104,000 to the Cooperative during 2020 and 2019.

At December 31, 2020 and 2019, balances due to the related parties were approximately \$21,000 and \$25,000. The outstanding balances are included in accounts payable.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 10 – PAYCHECK PROTECTION PROGRAM FORGIVENESS INCOME

On June 25, 2020, the Cooperative received an uncollateralized \$116,716 loan under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (SBA). The note included terms to accrue interest at 1% but payments were deferred until a determination of the amount of forgiveness was made. The Cooperative received confirmation of full loan forgiveness from the SBA on November 4, 2020. The amount of forgiveness was determined by the total eligible expenses incurred by the Cooperative during the covered period. Eligible expenses included payroll costs, rent, and utilities. The Cooperative recognized PPP forgiveness income of \$116,716 during 2020 to match the related covered period that eligible expenses were incurred.

The Cooperative must retain PPP documentation in its files for six years after the date the loan was forgiven and permit authorized representatives of SBA to access such files upon request. The SBA may review any loan at any time at its discretion. Therefore, the SBA may review the Cooperative's good-faith certification concerning the necessity of its loan request, whether the Cooperative calculated the loan amount correctly, whether the Cooperative used loan proceeds for the allowable uses specified in the CARES Act, and whether the Cooperative was entitled to loan forgiveness in the amount approved by the SBA. If the SBA determines the Cooperative was ineligible for the loan or for forgiveness in whole or in part, the SBA will seek repayment of the outstanding loan balance.

NOTE 11 – RETIREMENT PLAN

The Cooperative established a SIMPE IRA retirement plan that took effect in January 2020. All employees of the Cooperative who earned at least \$5,000 in compensation in the prior year and have the reasonable expectation of earning at least \$5,000 in compensation in the current year are eligible to participate in the plan. The Cooperative matches 100% of employees' elective deferral amounts up to a 3% ceiling. Retirement expense was \$15,072 for 2020.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

Certain errors of previously reported account balances were discovered during the current year. Accordingly, electricity purchases for 2019 and accrued expenses at December 31, 2019 were increased by \$36,822. The patronage capital balance at December 31, 2019 was decreased by a similar amount, and this balance has been restated from \$610,618 in the prior year financial statements to \$573,796 in the current year financial statements.

NOTE 13 – COVID-19 PANDEMIC

The Cooperative's operations may be affected by the ongoing COVID-19 outbreak that was declared a pandemic by the World Health Organization in March 2020. There is a potential risk that future developments may lead to a reduction in the Cooperative's sales and profits compared to historical results. However, the ultimate disruption and effect on the Cooperative is uncertain and the related financial impact and duration cannot be reasonably estimated at this time.