

Energy Cooperative Association of Pennsylvania

Financial Statements and Supplemental Information

Years Ended December 31, 2019 and 2018



WIPFLI

Independent Auditor's Report

To the
Energy Cooperative Association of Pennsylvania
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Energy Cooperative Association of Pennsylvania (a not-for-profit organization), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in patronage capital, and cash flows for the years 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Energy Cooperative Association of Pennsylvania as of December 31, 2019 and 2018, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of General and Administrative Expenses, are presented for the purpose of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

June 2, 2020
Radnor, Pennsylvania

Energy Cooperative Association of Pennsylvania

Balance Sheets

<i>As of December 31, 2019 and 2018</i>	2019	2018 (RESTATED)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 496,693	\$ 418,280
Cash - escrow	387,061	346,469
Accounts receivable, net	208,900	234,114
Prepaid expenses and other receivables	34,079	43,236
Total Current Assets	1,126,733	1,042,099
PROPERTY AND EQUIPMENT, net	17,041	9,185
OTHER ASSETS		
Deposits	8,500	8,500
Performance assurances	-	99,517
Intangibles, net	27,732	41,109
Total Other Assets	36,232	149,126
TOTAL ASSETS	\$ 1,180,006	\$ 1,200,410
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 123,601	\$ 109,628
Accrued expenses	425,452	501,896
Total Current Liabilities	549,053	611,524
MEMBERSHIP EQUITY		
Patronage capital	610,618	568,551
Reserve capital accounts	20,335	20,335
Total Membership Equity	630,953	588,886
TOTAL LIABILITIES AND MEMBERSHIP EQUITY	\$ 1,180,006	\$ 1,200,410

See Accompanying Notes to Financial Statements

Energy Cooperative Association of Pennsylvania

Statements of Revenues, Expenses and Changes in Patronage Capital

<i>Years Ended December 31, 2019 and 2018</i>	2019	2018 (RESTATED)
OPERATING REVENUES		
Electricity sales	\$ 2,389,318	\$ 2,619,164
Heating oil commissions	126,489	142,881
Membership fees, net of returns	170	889
Natural gas sales	119,919	82,749
Total Operating Revenues	2,635,896	2,845,683
OPERATING EXPENSES		
Electricity purchases	1,600,679	1,915,174
Natural gas purchases	75,110	69,427
General and administrative expenses	915,862	871,658
Total Operating Expenses	2,591,651	2,856,259
INCOME (LOSS) FROM OPERATIONS	44,245	(10,576)
NONOPERATING REVENUE (EXPENSES)		
Interest income	2,881	1,721
Interest expense	-	(420)
Loss on disposal of asset	-	(5,000)
Special events - net	(5,209)	-
Other	150	144
Total Nonoperating Expenses	(2,178)	(3,555)
NET INCOME (LOSS)	42,067	(14,131)
PATRONAGE CAPITAL - BEGINNING OF YEAR (RESTATED)	568,551	582,682
PATRONAGE CAPITAL - END OF YEAR (RESTATED)	\$ 610,618	\$ 568,551

See Accompanying Notes to Financial Statements

Energy Cooperative Association of Pennsylvania

Statements of Cash Flows

	2019	2018
<i>Years Ended December 31, 2019 and 2018</i>		(RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 42,067	\$ (14,131)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,426	4,188
Amortization	18,777	11,500
Loss on disposal of assets	-	5,000
Changes in operating assets and liabilities:		
Accounts receivable	25,214	(20,585)
Deposits	-	1,470
Prepaid expenses and other receivables	9,157	11,490
Performance assurances	99,517	-
Accounts payable	13,973	(86,761)
Accrued expenses	(76,444)	42,565
Deferred rent	-	(5,926)
Net Cash Provided by (Used in) Operating Activities	136,687	(51,190)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(12,282)	(1,372)
Purchases of intangible assets	(5,400)	(24,749)
Net Cash Used in Investing Activities	(17,682)	(26,121)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119,005	(77,311)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	764,749	842,060
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 883,754	\$ 764,749
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Interest	\$ -	\$ 221

See Accompanying Notes to Financial Statements

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 1: Nature of Operations

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Cooperative have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, management considers cash and highly liquid investments purchased with a maturity of three months or less to be cash equivalents which includes the cash-escrow account.

Cash - Escrow

In accordance with the agreement with its credit sleeve that provides wholesale electricity and natural gas, the Cooperative established an escrow account into which Electric and Natural Gas Utilities make deposits after the Cooperative's members are billed. The Cooperative's credit sleeve has the right to withdraw monies owed to the credit sleeve to cover electricity and natural gas delivered to the Cooperative's members. The Cooperative also has the right to withdraw monies owed to the Cooperative from this account.

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable includes trade accounts receivable and unbilled charges which consist of fuel, oil, 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, 2019 and 2018.

Property and Equipment

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 expense 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	5 years
Office furniture	7 years

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, customer lists are amortized over fifteen years, and patents are amortized over twenty 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.

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. 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 \$149,000 and \$155,000, are included in the energy purchase accounts in operating expenses for the years ended December 31, 2019 and 2018, respectively.

Income tax filings are subject to audit by various taxing authorities. Open periods subject to audit for federal and state purposes are generally the previous three years of tax returns filed.

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, replacing the existing accounting standard and industry-specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the standard is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 became effective on January 1, 2019 and the Cooperative adopted it using the modified retrospective method applied to open contracts and only to the version of contracts in effect as of January 1, 2019. In accordance with the modified retrospective method, the Cooperative's previously issued financial statements have not been restated to comply with ASC 606 and the Cooperative did not have a cumulative-effect adjustment to membership equity. The adoption of ASC 606 had no significant impact on the timing of revenue recognition compared to previously reported results.

Revenue Recognition

The Cooperative buys electricity and natural gas on the wholesale market and sells directly to its members. Revenues generated from contracts with members for electricity and natural gas is recognized as a single performance obligation satisfied over time and is recognized at a fixed or variable rates as electricity or gas is delivered to the customer during the month. The Cooperative generally has a right to consideration in an amount that corresponds directly with the value to the customer 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.

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Advertising

The Cooperative expenses all advertising costs as incurred. Advertising expense for the years ended December 31, 2019 and 2018 was \$63,851 and \$67,201, respectively.

Note 3: Restatement of Previously Issued Financial Statements

The December 31, 2018 financial statements have been restated to adjust previously reported accrued expenses and electricity purchases. The adjustments related to errors in remittances related to gross receipts tax for calendar 2018. Accordingly, adjustments were made to increase electricity purchases and accrued expenses for the year ended December 31, 2018. The effect of the restatement was to increase the net loss for the year ended December 31, 2018 by \$6,733.

Note 4: Property and Equipment

Property and equipment are summarized by major classifications as follows:

<i>As of December 31,</i>	2019	2018
Computer equipment and software	\$ 24,080	\$ 19,400
Furniture and office equipment	14,131	6,529
	38,211	25,929
Less accumulated depreciation	(21,170)	(16,744)
Total	\$ 17,041	\$ 9,185

Note 5: Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets subject to amortization are as follows:

<i>As of December 31,</i>	2019		2018	
	Gross Assets	Accumulated Amortization	Gross Assets	Accumulated Amortization
Customer list	\$ 10,000	\$ 7,723	\$ 10,000	\$ 7,057
Website design	94,399	68,944	88,999	50,833
Total	\$ 104,399	\$ 76,667	\$ 98,999	\$ 57,890

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 5: Intangible Assets (Continued)

The Cooperative incurred costs in making improvements to its website during 2017 and 2018. The website was put into service in 2018.

Estimated aggregate amortization expense is as follows for the years ending December 31:

2020	\$	18,800
2021		7,967
2022		689
2023		276
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Total	\$	27,732

Note 6: Line of Credit

The Cooperative maintains a revolving line of credit with PNC Bank in the amount of \$250,000 with interest at the bank's prime rate plus 1.5%. The effective rate at December 31, 2019 was 7.0%. The line of credit matures January 2021. The line of credit is collateralized by all assets of the Cooperative.

Note 7: 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.

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 8: Commitments and Contingencies

The Cooperative is leasing office space under a lease which expired in 2018. The lease agreement included a rent holiday of four months. The Cooperative recorded amounts related to the rent holiday period and scheduled rent increases as deferred rent. During 2018, the lease was extended for three years, effective December 1, 2018 with annual minimum lease payments increasing from \$71,000 to \$74,000 per year. Rental expense charged to operations was \$77,586 and \$56,843 for the years ended December 31, 2019 and 2018, respectively.

Minimum annual rentals required to be paid in the future are as follows for the years ending December 31 :

2020	\$	73,675
2021		69,300
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Total	\$	142,975

The Cooperative manages risks associated with power supply commitments by entering into forward contracts for the purchase of electricity at set prices. These contracts qualify for the normal purchases and sales exception under U.S. generally accepted accounting principles and are not accounted for as derivatives.

In order to operate as a utility provider in Pennsylvania, the Cooperative is required to provide a surety bond to the Pennsylvania Public Utility Commission. In 2015, the Cooperative obtained a bond in the amount of \$250,000 of which approximately \$100,000 was required to be funded by the Cooperative and is included in performance assurances on the balance sheet during 2018. During 2019, the Cooperative is working with a new carrier who does not require performance assurances.

Note 9: Major Supplier

The Cooperative primarily uses two (2) third-party wholesale suppliers for its purchases of electricity and natural gas.

Note 10: Related Parties

The Cooperative uses professional service firms in which board members and the former executive director's family are employed. The firms provided services totaling approximately \$104,000 and \$118,000 to the Cooperative during the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, balances due to the related parties were approximately \$25,000 and \$14,600, respectively. The outstanding balances are included in accounts payable.

Energy Cooperative Association of Pennsylvania

Notes to Financial Statements

Note 11: Concentration of 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 certain times during the year, cash balances may be in excess of FDIC coverage. The Cooperative has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash. At December 31, 2019, the Cooperative had a cash balance of approximately \$160,000, which is not FDIC insured.

Note 12: Subsequent Events

The Cooperative has evaluated subsequent events through June 2, 2020, which is the date the financial statements were available to be issued.

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, Management believes the Cooperative is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Supplemental Schedules

Energy Cooperative Association of Pennsylvania

Schedules of General and Administrative Expenses

<i>Years Ended December 31, 2019 and 2018</i>	2019	2018
Salaries	\$ 497,594	\$ 459,609
Amortization	18,777	11,500
Advertising and promotion	63,851	67,201
Bank service charges	916	918
Depreciation	4,426	4,188
Dues and subscriptions	828	2,363
Employee benefits	76,008	47,150
Insurance	25,100	35,870
IT expense	52,374	61,484
Membership expenses	5,676	8,031
Office supplies and expenses	8,889	12,307
Payroll taxes	44,146	42,097
Postage	-	18
Professional fees	30,371	40,787
Rent	77,586	56,843
Training and conferences	4,823	6,721
Travel	4,497	14,571
Total	\$ 915,862	\$ 871,658
