



ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA

FINANCIAL STATEMENTS

December 31, 2021 and 2020

CONTENTS

Independent Auditor's Report	1
Balance Sheets	3
Statements of Operations	4
Statements of Cash Flows	5
Notes to Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Energy Cooperative Association of Pennsylvania, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Energy Cooperative Association of Pennsylvania as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Energy Cooperative Association of Pennsylvania and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Energy Cooperative Association of Pennsylvania's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Energy Cooperative Association of Pennsylvania'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.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
May 24, 2022

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 565,131	\$ 958,851
Cash - escrow	287,185	220,040
Accounts receivable, net	302,805	146,025
Prepaid expenses	<u>48,773</u>	<u>16,640</u>
Total current assets	1,203,894	1,341,556
Property and equipment, net	10,577	14,564
OTHER ASSETS		
Deposits	8,500	8,500
Intangibles, net	<u>1,394</u>	<u>12,110</u>
Total other assets	<u>9,894</u>	<u>20,610</u>
Total assets	<u><u>1,224,365</u></u>	<u><u>1,376,730</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	222,848	141,977
Accrued expenses	<u>426,855</u>	<u>436,500</u>
Total liabilities	649,703	578,477
MEMBERS' EQUITY		
Patronage capital	554,328	777,919
Reserve capital accounts	<u>20,334</u>	<u>20,334</u>
Total members' equity	<u>574,662</u>	<u>798,253</u>
Total liabilities and members' equity	<u><u>\$ 1,224,365</u></u>	<u><u>\$ 1,376,730</u></u>

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
STATEMENTS OF OPERATIONS
Years Ended December 31, 2021 and 2020

	2021	2020
REVENUE		
Electricity sales	\$ 2,548,774	\$ 2,324,171
Natural gas sales	420,299	221,777
Heating oil commissions	110,087	109,778
Membership fees, net of returns	-	1,106
Total revenue	3,079,160	2,656,832
OPERATING EXPENSES		
Electricity purchases	1,959,624	1,419,640
Natural gas purchases	337,411	142,402
General and administrative expenses	1,009,823	1,008,643
Total operating expenses	3,306,858	2,570,685
Net income (loss) from operations	(227,698)	86,147
OTHER INCOME (EXPENSES)		
PPP forgiveness income	-	116,716
Interest income	411	1,160
Miscellaneous income	3,696	112
Interest expense	-	(12)
Total other income (expenses)	4,107	117,976
Net income (loss)	(223,591)	204,123
Patronage capital, beginning of year	777,919	573,796
Patronage capital, end of year	\$ 554,328	\$ 777,919

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (223,591)	\$ 204,123
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	7,183	5,869
Amortization	10,716	15,621
(Increase) decrease in assets		
Accounts receivable	(156,780)	62,875
Prepaid expenses	(32,133)	17,439
Increase (decrease) in liabilities		
Accounts payable	80,871	18,375
Accrued expenses	(9,645)	(25,774)
Net cash flows from operating activities	<u>(323,379)</u>	<u>298,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(3,196)</u>	<u>(3,391)</u>
Net change in cash and cash equivalents	(326,575)	295,137
Cash and cash equivalents - beginning of year	<u>1,178,891</u>	<u>883,754</u>
Cash and cash equivalents at end of year	<u>\$ 852,316</u>	<u>\$ 1,178,891</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash	\$ 565,131	\$ 958,851
Cash - escrow	<u>287,185</u>	<u>220,040</u>
Cash and cash equivalents	<u>\$ 852,316</u>	<u>\$ 1,178,891</u>

See accompanying notes.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020.

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, 2021 and 2020

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 2021 and 2020.

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 \$147,626 and \$134,017 for 2021 and 2020, 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 2021 and 2020 was \$60,762 and \$91,000.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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.

Date of Management’s Review

Management has evaluated subsequent events through May 24, 2022, the date which the financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Computer equipment and software	\$ 30,417	\$ 27,470
Furniture and office equipment	14,131	14,131
	<u>44,548</u>	<u>41,601</u>
Property and equipment	44,548	41,601
Less accumulated depreciation	33,971	27,037
	<u>10,577</u>	<u>14,564</u>
Property and equipment, net	<u>\$ 10,577</u>	<u>\$ 14,564</u>

NOTE 3 – INTANGIBLE ASSETS

Intangible assets at December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Customer list	\$ 10,000	\$ 10,000
Website design	94,649	94,399
	<u>104,649</u>	<u>104,399</u>
Intangibles	104,649	104,399
Less accumulated amortization	103,255	92,289
	<u>1,394</u>	<u>12,110</u>
Intangibles, net	<u>\$ 1,394</u>	<u>\$ 12,110</u>

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 – 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, 2021 was 3.25%. The line of credit matures in August 2022. 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, 2021 and 2020.

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, 2021 and 2020, the Cooperative had cash balances in excess of FDIC insurance limits by approximately \$515,000 and \$574,000. 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 three third-party wholesale suppliers.

NOTE 7 – RELATED PARTIES

The Cooperative uses professional service firms in which board members and their family members are employed. The firms provided services totaling approximately \$79,000 and \$108,000 to the Cooperative during 2021 and 2020.

At December 31, 2021 and 2020, balances due to the related parties were approximately \$16,000 and \$21,000. The outstanding balances are included in accounts payable.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 8 – OPERATING LEASE ARRANGEMENTS

The Cooperative leased office space under an arrangement that expired in November 2021.

The Cooperative commenced a new lease for co-working office space from January 2022 through March 2022. This lease now continues on a month to month basis and currently requires monthly payments of \$765.

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses on the statements of operations for 2021 and 2020 were comprised of the following:

	2021	2020
Salaries	\$ 580,116	\$ 545,112
Employee benefits	101,866	90,708
Advertising and promotion	93,905	124,933
Rent	76,531	70,818
Information technology	55,129	52,244
Payroll taxes	43,781	46,099
Professional fees	11,000	32,094
Amortization	10,716	15,621
Office supplies and expenses	9,705	4,247
Insurance	7,856	7,405
Depreciation	7,183	5,869
Training and conferences	3,571	6,949
Bank service charges	3,303	2,555
Travel	3,195	1,200
Membership expenses	1,280	1,166
Dues and subscriptions	686	932
Small equipment	-	691
	<u>\$ 1,009,823</u>	<u>\$ 1,008,643</u>

NOTE 10 – RETIREMENT PLAN

The Cooperative established a SIMPLE 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 \$17,362 and \$15,072 for 2021 and 2020.

ENERGY COOPERATIVE ASSOCIATION OF PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 11 – PAYCHECK PROTECTION PROGRAM AWARD

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 in 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 12 – SUBSEQUENT EVENT

In April 2022 the Cooperative entered into an asset purchase agreement pursuant to which, subject to the conditions stated therein, the Cooperative will acquire at closing renewable electricity accounts of another Pennsylvania third-party renewable electricity supplier. The closing is expected to occur by the end of May 2022.