FINANCIAL STATEMENTS OF

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.

Nine Months Ended December 31, 2019 and the Year Ended March 31, 2019

SCIARABBA WALKER &CO LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Municipal Electric and Gas Alliance, Inc.
Ithaca, New York 14850

We have audited the accompanying financial statements of Municipal Electric and Gas Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and March 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the nine months ended December 31, 2019 and the year ended March 31, 2019, 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 audits. We conducted our audits 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 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.

410 East Upland Road
Ithaca, New York 14850
607-272-5550 / 607-273-6357 (Fax)
www.swcllp.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Electric and Gas Alliance, Inc. as of December 31, 2019 and March 31, 2019 and the changes in its net assets and its cash flows for the nine months ended and the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sciarabba Walker & Co. LLP

Sciarabba Walker & Co., LLP

Ithaca, New York
May 8, 2020

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and March 31, 2019

ASSETS

	December 31, 2019	March 31, 2019
Current Assets:		
Cash and cash equivalents	$ 99,209	$ 141,185
Accounts receivable	102,018	150,215
Prepaid expenses	5,399	6,817
Total Current Assets	206,626	298,217
Property and Equipment:		
Computer equipment and website design	18,913	18,913
Less: accumulated depreciation	18,913	18,913
Total Property and Equipment	-	-
Total Assets	$ 206,626	$ 298,217

LIABILITIES AND NET ASSETS

	December 31, 2019	March 31, 2019
Current Liabilities:		
Accounts payable	$ 136,386	$ 188,374
Payroll liabilities	-	11,926
Total Current Liabilities	136,386	200,300
Total Liabilities	136,386	200,300
Net Assets:		
Without donor restrictions	70,240	97,917
Total Net Assets	70,240	97,917
Total Liabilities and Net Assets	$ 206,626	$ 298,217

See accompanying notes.

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the nine months ended December 31, 2019
and the year ended March 31, 2019,

	December 31, 2019	March 31, 2019
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenue, gains and other support:		
Royalty income	$ 489,132	$ 785,385
Interest income	-	339
Marketing income	14,062	18,750
Realized loss on sale of investments	-	(307)
Miscellaneous income	10,555	-
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	513,749	804,167
EXPENSES:		
Program services	451,602	748,119
Supporting services:		
Management and general	89,824	131,080
TOTAL EXPENSES	541,426	879,199
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(27,677)	(75,032)
NET ASSETS, beginning of year	97,917	172,949
NET ASSETS, end of year	$ 70,240	$ 97,917

See accompanying notes.

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the nine months ended December 31, 2019

	Program Services	Management and General	Total
Staff salaries	$ 62,527	$ 62,526	$ 125,053
Payroll taxes	4,913	4,913	9,826
Total salaries and related expenses	67,440	67,439	134,879
Contracted services	242,752	-	242,752
Royalty payments	73,918	-	73,918
Special projects	40,235	-	40,235
Professional fees	578	9,123	9,701
Insurance	-	6,692	6,692
Meeting expense	5,139	-	5,139
Memberships and annual meetings	7,765	-	7,765
Advertising and promotion	4,557	-	4,557
Office supplies and software	906	4,059	4,965
Postage	375	-	375
Telephone	1,543	171	1,714
Travel expenses	6,394	-	6,394
Miscellaneous	-	240	240
Rent expense	-	2,100	2,100
TOTAL EXPENSES	$ 451,602	$ 89,824	$ 541,426

See accompanying notes.

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended March 31, 2019

	Program Services	Management and General	Total
Staff salaries	$ 95,255	$ 95,945	$ 191,200
Payroll taxes	7,557	9,459	17,016
Total salaries and related expenses	102,812	105,404	208,216
Contracted services	393,010	-	393,010
Royalty payments	145,683	-	145,683
Special projects	68,475	-	68,475
Professional fees	868	9,901	10,769
Insurance	-	9,035	9,035
Meeting expense	6,634	-	6,634
Memberships and annual meetings	5,463	-	5,463
Advertising and promotion	13,587	-	13,587
Office supplies and software	1,122	4,418	5,540
Postage	286	-	286
Telephone	1,641	182	1,823
Travel expenses	8,538	-	8,538
Miscellaneous	-	40	40
Rent expense	-	2,100	2,100
TOTAL EXPENSES	$ 748,119	$ 131,080	$ 879,199

See accompanying notes.

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
For the nine months ended December 31, 2019
and the year ended March 31, 2019

	December 31, 2019	March 31, 2019
Cash Flows from Operating Activities:		
Change in net assets	$ (27,677)	$ (75,032)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized loss on sale of investments	-	307
Increase (decrease) in assets:		
Accounts receivable	48,197	(71,916)
Prepaid expenses	1,418	-
(Decrease) increase in liabilities:		
Accounts payable	(51,988)	57,345
Payroll liabilities	(11,926)	172
Net Cash Used in Operating Activities	(41,976)	(89,124)
Cash Flows from Investing Activities:		
Proceeds from investments	-	144,789
Net Cash Provided by Investing Activities	-	144,789
Net Change in Cash and Cash Equivalents	(41,976)	55,665
Cash, beginning of year	141,185	85,520
Cash, end of year	$ 99,209	$ 141,185
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ -	$ -
Income taxes	-	-

See accompanying notes.

MUNICIPAL ELECTRIC AND GAS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
For the nine months ended December 31, 2019
and the year ended March 31, 2019

A. Summary of Significant Accounting Policies

Nature of Operations

Municipal Electric & Gas Alliance, Inc. ("MEGA" or "the Organization"), is a nonprofit local development corporation under NYS General Municipal Law. Its purpose is to achieve the lowest and most stable rates for electric and natural gas utility customers within the Organization's territory, principally focused on municipal customers, thereby lessening the burdens of government.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Organization has no net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all cash on hand, cash in financial institutions, including cash held in escrow, and highly liquid debt instruments with original maturities of three months or less, to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to receive from outstanding balances.

Property and Equipment

Computer equipment and website design is stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets (3 to 5 years). Expenditures for major renewals and betterments having a cost basis exceeding $2,500 and extend useful lives of the asset are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

Revenue from Contracts with Customers

On April 1, 2019, the Organization adopted FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which create a single framework for recognizing revenue from contracts with customers. Under ASC 606, the Organization recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer at an amount that the Organization expects to be entitled to in exchange for those products or services. Revenue that is in scope of new framework is reported as royalty income and marketing income on the statement of activities and changes in net assets. The Organization has utilized the modified retrospective method as applied to customer contracts that were not completed as of April 1, 2019. As a result, financial information for reporting periods beginning on or after April 1, 2019, is presented in accordance with ASC 606. Comparative financial information for reporting periods beginning prior to April 1, 2019, has not been adjusted and continues to be reported in accordance with the Organization's revenue recognition policies prior to the adoption of ASC 606. The Organization did not record a cumulative adjustment related to the adoption of ASC 606, and the effects of adoption were not significant.

Provision for Income Taxes

There is no provision for income taxes in the accompanying financial statements as the entity is exempt from Federal and State income taxation under 501(c)(3) of the Internal Revenue Code. The Organization accounts for income taxes in accordance with FASB Accounting Standards Codification (ASC) 740, Income Taxes. FASB ASC 740-10 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Advertising Costs

The Organization expenses advertising costs when incurred. During the nine months ended December 31, 2019 and the year ended March 31, 2019, $4,557 and $13,587 respectively, were expensed.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes, office supplies and software, professional fees and telephone. The expenses are allocated based on estimates of time or utilization.

Reclassification

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

B. Revenue Recognition

Disaggregation of Revenue

The following table presents the Company's royalty income and marketing income disaggregated based on the timing of the transfer of goods or services:

	Nine Months Ended December 31, 2019
Over time	$ 503,194

Contract Balances

The following table presents the beginning and ending balances from contracts with customers:

	2019
Accounts receivable, as of April 1:	$ 150,215
Accounts receivable, as of December 31:	102,018

Performance Obligations

The following is a description of performance obligations, timing of satisfaction of performance obligations, significant payment terms, and obligations for returns and refunds by major type of contract:

<u>Royalty income</u> – Royalty income consists of electric and natural gas services provided to customers. The Organization does not sell either of these products. However, the Organization has entered into numerous contracts with providers of these services in order to achieve the lowest and most stable rates for the customers that fall within the Organization's territory, principally focused on municipal customers, thereby lessening the burdens of government. Income is recognized monthly and quarterly based on the services provided. Electric and natural gas services are distinct because the customer benefits from them on their own. Payment terms are disclosed within the contracts and are based on usage, kilowatts (kWh) for electricity and dekatherms (Dth) for natural gas. There are no advanced payments from customers. Royalties owed to the Organization for services at December 31, 2019 were $86,157. These royalties were received during the first quarter of the following year. There is no uncollectible revenue, refunds, or penalties for late payments.

<u>Marketing income</u> – Marketing income consists of cost-sharing arrangements with Energy Next, Inc. and New York State Association of Counties ("NYSAC"). The contracts disclose that Energy Next, Inc. and NYSAC are obligated to pay 50% and 25%, respectively of the Organization's yearly marketing budget on a quarterly basis. These arrangements allow the Organization to continue to grow their existing customer base through new association memberships, sponsorships, and exhibit fees amongst other

things. These arrangements constitute distinct performance obligations. No advanced payments for services occur. There are no uncollectible revenues, refunds, or penalties for late payments.

Significant Judgments

Currently the Organization does not have any significant judgments.

Practical Expedients

The Organization has elected to apply the following practical expedients:

- Recognize incremental costs of obtaining a contract with amortization periods of one year or less as expense when incurred. The Organization does have commissions that are presented on the statements of activities and changes in net assets under program services expenses described as contracted services and royalty payments. Commissions are associated with Energy Next, Inc. and NYSAC. Energy Next, Inc. provides the Organization with consulting related to developing competitive gas and electric energy related programs whereas NYSAC provides energy procurement services. Commissions paid to Energy Next, Inc. and NYSAC are 50% of all royalty payments received from suppliers and 25% of royalties received from NYSAC participants, respectively. Total commissions associated with Energy Next, Inc. and NYSAC were $242,752 and $73,918, respectively for the nine months ended December 31, 2019. As of December 31, 2019, $111,151 and $24,827 were due to Energy Next, Inc. and NYSAC, respectively under the agreements. The fees were paid during the first quarter of the following year from the Organization.

- No adjustment is made for the effects of a significant financing component as the period between the time of service and time of payment is typically one year or less.

C. Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions:

	December 31, 2019	March 31, 2019
Financial assets	$ 201,227	$ 291,400
Less: those unavailable for general expenditures within one year	-	-
Financial assets available to meet cash needs for general expenditures within one year	$ 201,227	$ 291,400

As part of the Organization's liquidity management, it has a goal to maintain enough cash and cash equivalents on hand to meet at least three months of normal operating expenses excluding depreciation.

D. Property and Equipment

Property and equipment consisted of the following at:

	December 31, 2019		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 9,488	$ 9,488	$ -
Website design	9,425	9,425	-
Total	$ 18,913	$ 18,913	$ -

	March 31, 2019		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 9,488	$ 9,488	$ -
Website design	9,425	9,425	-
Total	$ 18,913	$ 18,913	$ -

Depreciation expense amounted to $0 for the nine months ended December 31, 2019 and the year ended March 31, 2019.

E. Concentration of Credit Risk

During the course of the year, the Organization may have cash on deposit with financial institutions in excess of FDIC insured limits.

F. Fiscal Year Change

Effective the calendar year beginning January 1, 2020, the Organization will change from a fiscal year end of March 31 to December 31. A nine-month fiscal year transition period from April 1, 2019 through December 31, 2019 precedes the start of the new calendar-year cycle.

G. Adoption of New Accounting Pronouncement

On April 1, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The update also provides additional guidance about how to determine whether a contribution is conditional. The amendments within this update should be applied on a modified prospective basis.

Management has evaluated the impact of this update and has determined that no changes to its current revenue recognition policies and procedures are necessary. Consequently, there is no impact on the current year financial statement line items presented.

H. Subsequent Events

Management has evaluated subsequent events through May 8, 2020, the date when the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization's operations. Such potential impacts include a 12.5% net reduction in royalty income due to a decrease in usage and a loss of three hydro projects previously planned along with uncertainty related to capital region CCA aggregation income. A change in the royalty structure beginning November 2020 may offset some of those decreases. The Organization has trimmed their 2020 budget for expenses to a bare minimum. Two staff members resigned effective May 1, 2020 and the Organization has decided not to fill those positions until 2021. A transition plan has been established distributing the responsibilities of those previously filled positions amongst the remaining staff and consultants. Other financial impacts could occur although such potential impacts are unknown at this time.