PP&L SUSTAINABLE ENERGY FUND
d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
(A Not-for Profit Corporation)

Financial Statements and Auditors' Report

June 30, 2002

CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 SOUTH CEDAR CREST BOULEVARD
ALLENTOWN, PA 18103

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INDEPENDENT AUDITORS' REPORT

Board of Directors
PP&L Sustainable Energy Fund
Allentown, PA

We have audited the accompanying statement of financial position of PP&L Sustainable Energy Fund (A Not-for-Profit Corporation) as of June 30, 2002 and 2001 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PP&L Sustainable Energy Fund as of June 30, 2002 and 2001, and the results of its operations and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Campbell, Rappold & Yurasits LLP
Certified Public Accountants

August 28, 2002

PP&L SUSTAINABLE ENERGY FUND
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STATEMENTS OF FINANCIAL POSITION

	June 30	
	2002	2001
ASSETS:		
Cash and Cash Equivalents	$1,066,685	$ 812,041
Ratepayer's Contribution Receivable	292,833	266,104
Royalty Receivable	7,094	2,160
Investments (Note 3)	7,160,876	6,526,852
Program Related Investments, Net (Note 4)	1,367,005	334,167
Office Equipment, Net (Note 5)	6,090	9,410
Prepaid Expense and Deposits	2,475	875
Total Assets	$9,903,058	$7,951,609
LIABILITIES:		
Accounts Payable	$ 21,691	$ 25,089
Accrued Employee Benefits	28,957	18,251
Total Liabilities	50,648	43,340
NET ASSETS:		
Unrestricted Net Assets	9,852,410	7,908,269
Total Liabilities and Net Assets	$9,903,058	$7,951,609

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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STATEMENT OF ACTIVITIES

	Year Ended June 30 2002	2001
Revenues and Gains:		
PP&L Ratepayers' Contribution (Note 8)	$3,252,679	$8,196,762
Interest Income	17,715	26,050
Investment Return (Note 3)	(718,680)	76,852
Interest-Program Loans	15,794	–
Royalties	16,342	2,160
Other	10,125	18,300
Total Revenue and Gains	2,593,975	8,320,124
Expenses:		
Grants Made (Note 10)	73,999	35,401
Loss Reserve	236,250	15,000
Total Program Expenses	310,249	50,401
Salaries and Wages	146,226	107,595
Fringe Benefits	33,610	29,178
Payroll Taxes	12,418	10,613
Training	340	1,425
Rent	15,755	9,980
Insurance	3,544	3,842
Depreciation	3,320	2,029
Furniture Rental	–	300
Dues and Publications	2,075	463
Marketing	22,750	6,771
Printing and Postage	4,511	6,742
Telephone	5,092	4,864
MIS Support/Web Hosting	6,328	1,466
Start-up Costs (Note 8)	–	103,332
Board Expense/Stipends	23,467	12,523
Director & Officer Insurance	2,400	–
Professional Fees	44,411	42,095
Travel	8,673	10,799
Office Supplies	3,022	5,610
Miscellaneous	1,643	1,827
Total Management and General Expense	339,585	361,454
Total Expenses	649,834	411,855
Increase in Unrestricted Net Assets	1,944,141	7,908,269
Unrestricted Net Assets, Beginning	7,908,269	–
Unrestricted Net Assets, Ending	$9,852,410	$7,908,269

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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STATEMENT CASH FLOWS

	Year Ended June 30, 2002	Year Ended June 30, 2001
Cash Flows from Operating Activities:		
Increase in Net Assets	$1,944,141	$7,908,269
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	3,320	2,029
Loss Reserve	236,250	15,000
Net Realized and Unrealized Losses on Investments	836,030	90,931
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(31,663)	(268,264)
Increase in Prepaid Expense and Deposits	(1,600)	(875)
Increase (Decrease) in Account Payable	(3,398)	25,089
Increase in Accrued Employee Benefit	10,706	18,251
Net Cash Provided by Operating Activities	2,993,786	7,790,430
Cash Flows from Investing Activities:		
Purchase of Office Equipment and Furniture	–	(11,439)
Purchase of Investments	(4,118,929)	(6,989,723)
Proceeds from Sale of Investments	2,648,875	371,940
Increase in Program Related Investments	(1,300,000)	(350,000)
Return of Program Related Investments	30,912	833
Net Cash Used in Investing Activities	(2,739,142)	(6,978,389)
Increase in Cash and Cash Equivalents	254,644	812,041
Cash and Cash Equivalents, Beginning of Year	812,041	–
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,066,685	$ 812,041

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002

1. Nature of Organization

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund of Central Eastern PA (the Organization) is a Pennsylvania non-profit corporation formed to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PP&L ratepayers.

The Organization was incorporated in November, 1999 and began operations July, 2000. The Organization was formed pursuant to a joint settlement agreement arising from the Pennsylvania Utility Commission (PUC) electric utility deregulation proceedings in 1998. The agreement provides, in part, a rate surcharge on electric power consumers (ratepayers) through 2004. The surcharge is collected from the ratepayers by the power distribution entity, PP&L Electric Utilities Corporation for this local service area, and remitted to the Organization for investment.

The Organization is managed by an executive director who reports to a Board of Directors. The PUC also maintains oversight of the Fund.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PP&L Sustainable Energy Fund have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2002 and 2001, all net assets are unrestricted.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentration of Revenue

The Organization receives a substantial amount of its support from the PP&L ratepayers contributions, as more fully described in Note 1, which expires after 2004.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, individuals volunteer their time and perform a variety of tasks that assist the Organization with specific investment programs, and various committee assignments.

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.

Investments in Marketable Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Program Related Investments

(a) Loans

Loans are stated at their outstanding unpaid principal balance. Interest income is recognized as revenue when received.

(b) Allowance for Loan Losses

The allowance for loan losses has been established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level considered adequate to provide for potential loan losses. In making this determination, management takes into consideration the results of internal review procedures, prior loan loss experience, an assessment of the effect of current and anticipated future economic conditions, the financial condition of the borrower and such other factors that, in management's judgement, deserve consideration. The determination of the adequacy of the allowance is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

(c) Nonmarketable Equity Securities

Nonmarketable equity investments are holdings of less than 20% of the voting stock of investors and are carried at cost. The shares carry various conditions or restrictions on transfers and redemptions. Cost is reduced for permanent declines in value, as estimated by management, and dividends, if any, are treated as income when received. Investees are typically start-up developmental activities and as such are highly speculative. The determination of write-downs, if any, or ultimate realization of the investment is inherently subjective and as such, it requires material estimates regarding their valuation that are susceptible to significant change.

Concentration of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Organization places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Organization has significant investments in stocks and bonds. Though the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Organization. In addition, investments do not represent significant concentrations of market risk in as much as the Organization's investment portfolio is adequately diversified among issuers. Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers and investees, who are predominately located in Central Eastern Pennsylvania and associated with early stage sustainable or alternate energy industry. Consequently, the ability to realize the amounts may be affected by economic fluctuations in the power industry in this geographic region. The Organization performs ongoing credit evaluations and reserves for estimated and known uncollectibles.

Office Equipment

Office equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and computed on straight-line and accelerated methods.

Advertising Costs

Advertising costs are expensed as incurred.

3. **Investments**

Investments are managed by professional investment managers. The investment managers are subject to the Organization's investment policies which contain objectives, guidelines and restrictions designed to complement the Organization's activities and mission. Investments at fair value at June 30, are comprised of the following:

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002

3. Investments (continued)

	2002	2001
U.S. Government Obligations	$1,324,330	$ 969,321
Corporate Bonds	490,638	802,414
Equity Securities	5,164,458	4,244,038
Temporary Cash and Money Market	181,450	511,079
	$7,160,876	$6,526,852

Investment return is summarized as follows:

	2002	2001
Interest and Dividend Income	$ 162,871	$195,368
Net Realized and Unrealized Losses On Investments	(836,030)	(90,931)
	(673,159)	104,437
Less Investment Advisory and Custodian Fees	(45,521)	(27,585)
Total Investment Return	$ (718,680)	$ 76,852

4. Program Related Investments

Program related investments consist of loans to and equity investments in entities to assist them in pursuing sustainable energy opportunities.

Loans	2002	2001
Due in monthly principal repayments of $1,042 through April 2002, $3,125 through April 2003 and $7,500 thereafter, due April 2008. $250,000 advanced as of June 30, 2001 with required principal payments reduced pro-rata.. Royalties payable at 3% of gross revenue, up to a maximum of $650,000. Secured by assets of the borrowers.	$480,710	$249,167

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002

4. **Program Related Investments (continued)**

	2002	2001
Loans (continued)		
Interest only at 10%, due February, 2006, secured by assets of the borrower	100,000	100,000
Due in monthly installments of $3,042, including interest at 8%, due December 2006, secured by assets of the borrower	137,545	–
Due March 2007. Royalties payable at 3% of net factoring sales, up to a maximum of $487,500, secured by assets of the borrower	325,000	–
	1,043,255	349,167
Less Loss Reserve	(251,250)	(15,000)
Total Loans, Net	792,005	334,167
Nonmarketable Equity Securities		
250,000 Shares Community Energy, Inc. Series A Preferred	250,000	–
124,521 Shares Nova Cruz Products, Inc. Series A Convertible Preferred	325,000	–
Total Equity Investments	575,000	–
Total Program Related Investments	$1,367,005	$ 334,167

5. **Office Equipment**

	2002	2001
Furniture	$ 6,904	$ 6,904
Computer Equipment	4,535	4,535
	11,439	11,439
Less Accumulated Depreciation	(5,349)	(2,029)
	$ 6,090	$ 9,410

6. **Lease**

The Organization leases its office facilities under a non-cancellable operating lease expiring June 30, 2003 at $1,400 per month for the year ended June 30, 2002 and $1,600 per month thereafter. Effective October 1, 2002, the Organization executed a replacement lease with the same landlord for larger space. The new lease provides for monthly base rent of $2,467 through September 30, 2003 and annual adjustments thereafter based on the consumer price index, through September 30, 2005. Future minimum lease payments for the current lease's remaining three months and the new lease are:

Years ended June 30:	Amount
2003	$26,999
2004	29,598
2005	29,598
2006	7,400

7. **Retirement Plan**

The Organization has a defined contribution retirement plan (the Plan) covering all full time employees having attained 21 years of age with three months of service. The Organization makes contribution to the Plan each year equal to 10% of all participants compensation plus 4.3% of compensation in excess of 40% of the Social Security Taxable Wage base in effect on the first day of each Plan year. Total expense was $13,720 and $11,980 for the years ended June 30, 2002 and 2001, respectively.

8. **Startup and Pre-Operating Activities**

Included in Ratepayer Contributions in the accompanying 2001 Statement of Activities is $4,663,323 of surcharges collected for the period January 1999 (inception) through June 30, 2001 plus $199,929 of related earnings. Also, included in Start-up Costs in the statement is $71,161 of organizational and development costs incurred during the same period. In July 2000, upon commencement of the Organization's operations, the former custodian of the funds distributed the net amount to the Organization. Accordingly, the amounts are reported in current period operations.

9. **Line of Credit**

The Organization has a $750,000 Line of Credit with a bank, expiring March 2003. Interest on borrowings is payable at the bank's prime rate minus .75%. There were no borrowings on the line as of or during the period ended June 30, 2002.

10. Related Party Transactions

The Organization awarded $43,000 of program grants in 2002 to two organizations, each of which has a director who is a board member of the Organization.