

**THE SUSTAINABLE ENERGY FUND OF  
CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**Financial Statements and Auditors' Report**

**June 30, 2004**

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

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Sustainable Energy Fund Central Eastern PA  
Allentown, PA

We have audited the accompanying statement of financial position of The Sustainable Energy Fund of Central Eastern PA (A Not-for-Profit Corporation) as of June 30, 2004 and 2003 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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 The Sustainable Energy Fund of Central Eastern PA as of June 30, 2004 and 2003, 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 20, 2004

MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENTS OF FINANCIAL POSITION**

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
<b><u>ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 1,867,712	\$ 2,606,347
Ratepayer's Contribution Receivable	268,266	260,171
Grant Receivable	25,193	37,842
Investments (Note 3 and 4)	12,514,535	8,355,053
Program Related Investments, Net (Note 5)	1,699,734	986,853
Office Equipment, Net (Note 6)	13,785	17,760
Prepaid Expense and Deposits	5,017	4,958
Investments - Deferred Compensation Plan (Note 9)	<u>55,534</u>	<u>37,867</u>
 Total Assets	 <u>\$16,449,776</u>	 <u>\$12,306,851</u>
<b><u>LIABILITIES:</u></b>		
Accounts Payable	\$ 75,988	\$ 58,321
Accrued Employee Benefits	14,818	7,209
Deferred Compensation Liability (Note 9)	<u>55,534</u>	<u>37,867</u>
Total Liabilities	<u>146,340</u>	<u>103,397</u>
<b><u>NET ASSETS:</u></b>		
Unrestricted Net Assets	<u>16,303,436</u>	<u>12,203,454</u>
 Total Liabilities and Net Assets	 <u>\$16,449,776</u>	 <u>\$12,306,851</u>

See accompanying notes to financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**STATEMENT OF ACTIVITIES**

	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<i><u>Revenues and Gains:</u></i>		
PP&L Ratepayers' Contribution	\$ 3,405,695	\$ 3,416,050
Grant Revenue	22,882	37,842
Interest Income - Operating and Money Market	28,818	23,869
Investment Return (Note 3):		
Interest and Dividend Income	251,749	199,469
Net Realized and Unrealized Gains (Losses)	1,220,599	45,822
Less Investment Advisory and Custodian Fees	(62,867)	(48,410)
Interest-Program Loans	57,884	27,026
Royalties and Dividends	22,500	10,714
Other	<u>2,300</u>	<u>2,500</u>
Total Revenue and Gains	<u>4,949,560</u>	<u>3,714,882</u>
<i><u>Expenses:</u></i>		
Program Services		
Grants Awarded	117,239	157,698
Loss Reserve	62,500	687,368
Operating Expenses	<u>355,779</u>	<u>327,658</u>
	535,518	1,172,724
Management and General	<u>314,060</u>	<u>191,114</u>
Total Expenses	<u>849,578</u>	<u>1,363,838</u>
Increase in Unrestricted Net Assets	4,099,982	2,351,044
Unrestricted Net Assets, Beginning	<u>12,203,454</u>	<u>9,852,410</u>
Unrestricted Net Assets, Ending	<u>\$16,303,436</u>	<u>\$12,203,454</u>

See accompanying notes to financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2004**

**With Comparative Totals for 2003**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total</u>	
			<u>2004</u>	<u>2003</u>
Grants Awarded	<u>\$117,239</u>	<u>\$ —</u>	<u>\$117,239</u>	<u>\$ 157,698</u>
Program Related Investments' Loss Allowance	<u>62,500</u>	<u>—</u>	<u>62,500</u>	<u>687,368</u>
Operating Expenses:				
Salaries and Wages	118,607	108,196	226,803	169,004
Fringe Benefits	23,149	21,655	44,804	37,670
Payroll Taxes	9,311	8,710	18,021	13,423
Contract Managers	44,460	—	44,460	98,878
Training	154	144	298	410
Recruiting	14,050	6,021	20,071	217
Subtotal Staff	<u>209,731</u>	<u>144,726</u>	<u>354,457</u>	<u>319,602</u>
Rent	19,097	12,828	31,925	27,514
Insurance	2,102	1,410	3,512	3,658
Depreciation	3,723	2,501	6,224	4,786
Subtotal Occupancy	<u>24,922</u>	<u>16,739</u>	<u>41,661</u>	<u>35,958</u>
Board Stipends	10,710	24,990	35,700	29,700
Board Expenses	2,141	4,996	7,137	8,636
Dues and Publications	—	2,284	2,284	1,538
Marketing	4,071	—	4,071	11,227
Office Supplies	3,220	2,136	5,356	4,545
Education Consulting	481	—	481	9,882
Audit	—	9,500	9,500	9,000
Legal	3,082	77,322	80,404	20,607
Due Diligence	48,337	—	48,337	17,006
Organization Design	—	11,415	11,415	1,602
Financial System Support	906	5,136	6,042	11,636
DEP Grant Reimursable Expenses	14,937	—	14,937	—
Printing and Postage	3,260	2,163	5,423	3,215
Telephone	4,631	3,072	7,703	6,220
Travel	5,770	3,829	9,599	11,149
MIS Support/Web Hosting	2,613	2,613	5,226	3,572
Director and Officer Insurance	—	2,738	2,738	2,738
Workout Expenses	16,362	—	16,362	8,976
Miscellaneous	605	401	1,006	1,963
Subtotal Other	<u>121,126</u>	<u>152,595</u>	<u>273,721</u>	<u>163,212</u>
Total Operating Expenses	<u>355,779</u>	<u>314,060</u>	<u>669,839</u>	<u>518,772</u>
Totals	<u>\$535,518</u>	<u>\$314,060</u>	<u>\$849,578</u>	<u>\$1,363,838</u>

See accompanying notes to the financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**STATEMENT CASH FLOWS**

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<i>Cash Flows from Operating Activities:</i>		
Increase in Net Assets	\$ 4,099,982	\$2,351,044
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	6,224	4,786
Loss Reserve	62,500	687,368
Net Realized and Unrealized (Gains) Losses on Investments	(1,220,599)	(45,822)
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts and Grants Receivables	4,554	1,914
(Increase) in Prepaid Expense and Deposits	(59)	(2,483)
Increase (Decrease) in Account Payable	17,668	36,630
Increase in Employee Benefit Liabilities	<u>25,276</u>	<u>16,119</u>
 Net Cash Provided by Operating Activities	 <u>2,995,546</u>	 <u>3,049,556</u>
<i>Cash Flows from Investing Activities:</i>		
Purchase of Office Equipment and Furniture	(2,249)	(16,456)
Net Purchase of Investments	(2,938,883)	(1,148,356)
Additions to Deferred Compensation Plan Investments	(17,667)	(37,867)
Increase in Program Related Investments	(900,000)	(355,000)
Return of Program Related Investments	<u>124,618</u>	<u>47,785</u>
 Net Cash Used in Investing Activities	 <u>(3,734,181)</u>	 <u>(1,509,894)</u>
 Increase (Decrease) in Cash and Cash Equivalents	 (738,635)	 1,539,662
 Cash and Cash Equivalents, Beginning of Year	 <u>2,606,347</u>	 <u>1,066,685</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 1,867,712</u>	 <u>\$2,606,347</u>

See accompanying notes to financial statements.

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

1. **Nature of Organization**

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund of Central Eastern PA (the Fund) 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 Fund 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, PPL Electric Utilities for this local service area, and remitted to the Fund for investment.

The Fund 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 the 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 Fund 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, 2004 and 2003, all net assets are unrestricted.

Cash and Cash Equivalents

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



THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Concentration of Revenue

The Fund receives a substantial amount of its support from the PPL ratepayers contributions, as more fully described in Note 1, which expires December 31, 2004. Management and the Board of Directors believe that at least the current level of funding will be renewed beyond 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.

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(c) Nonmarketable Equity Securities

Nonmarketable equity investments are holdings of less than 20% of the stock of investees 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. Royalty and dividend income is recognized as revenue when received.

Concentration of Credit and Market Risk

Financial instruments that potentially expose the Fund to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Fund places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Fund 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 Fund. In addition, investments do not represent significant concentrations of market risk in as much as the Fund'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 endeavors. Consequently, the ability to realize the amounts may be affected by economic and political fluctuations in the power industry in this geographic region. The Fund 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 of three to five years and computed on straight-line and accelerated methods.

Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the original useful lives of the assets are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**3. Investments**

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

	2004	2003
U.S. Government Obligations	\$ 2,985,942	\$2,006,910
Corporate Bonds	404,133	526,694
Equity Securities	8,915,787	5,648,202
Temporary Cash and Money Market	208,673	173,247
	<b>\$12,514,535</b>	<b>\$8,355,053</b>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 251,749	\$ 199,469
Net Realized and Unrealized Gains (Losses) on Investments	1,220,599	45,822
	1,472,348	245,291
Less Investment Advisory and Custodian Fees	(62,867)	(48,410)
Total Investment Return	<b>\$ 1,409,481</b>	<b>\$ 196,881</b>

**4. Commitments-Program Related Investments**

The Organization has designated \$4,450,000 of investments to be used for program related investments (ie-loans, equity, grants) which have been committed to and/or are pending approval as of June 30, 2004, but have not yet been disbursed.

**5. Program Related Investments**

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

Loans	2004	2003
Powerweb Technologies, Inc. - due in monthly principal repayments of \$1,042 through April 2004, \$3,125 through April 2004 and \$7,500 thereafter, due April 2008. Royalties payable at 3% of borrower's gross revenue, up to a maximum of \$650,000. Secured by assets of the borrower.	\$431,250	\$459,376

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

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

<u>Loans (continued)</u>	<u>2004</u>	<u>2003</u>
Energy Unlimited, Inc. - interest only due monthly at 10%, due February, 2006.	\$ 100,000	\$ 100,000
Energy Unlimited, Inc. - interest accruing at 7.5%, principal and accrued interest due earlier of December 31, 2004 or upon related project's completion	200,000	- 0 -
Community Energy, Inc. - due in monthly installments of \$3,042, including interest at 8%, due December 2006. Paid July, 2004	82,451	111,095
Community Energy, Inc. - \$250,000 line of credit, interest only due monthly at prime plus 1%, due June, 2004. Paid July, 2004.	250,000	50,000
Allentown Technology Center - interest only due monthly at 6% through May, 2004, thereafter, monthly installments of \$3,207, including interest at 6%, due November, 2009.	177,691	180,000
Nova Cruz, Products, Inc. - due March 2007, royalties payable at 3% of net factoring sales, up to a maximum of \$487,500, secured by assets of the borrower.		
Foreclosed in August 2003, reduced to expected net realizable value.	50,000	104,882
Londonderry School - due in monthly installments of \$2,773 including interest at 3% plus \$115,522 principal due on each of May, 2006 and November, 2008, due in full May, 2011	489,342	- 0 -
	<u>1,780,734</u>	<u>1,005,353</u>
Less Loss Reserve	<u>(331,000)</u>	<u>(268,500)</u>
Total Loans, Net	<u>1,449,734</u>	<u>736,853</u>

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

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

	<u>2004</u>	<u>2003</u>
<u>Nonmarketable Equity Securities</u>		
250,000 Shares Community Energy, Inc. Series A Preferred	<u>250,000</u>	<u>250,000</u>
Total Equity Investments	<u>250,000</u>	<u>250,000</u>
Total Program Related Investments	<u>\$1,699,734</u>	<u>\$ 986,853</u>

In July, 2004, the two Community Energy loans totaling \$332,451 were repaid. Subsequently, the Organization acquired 132,591 shares of Community Energy new common stock for \$250,000 subject to terms of the original November, 2001 investors agreement.

**6. Office Equipment**

	<u>2004</u>	<u>2003</u>
Furniture	\$ 12,482	\$ 12,077
Computer and Phone Equipment	<u>17,662</u>	<u>15,818</u>
	30,144	27,895
Less Accumulated Depreciation	<u>(16,359)</u>	<u>(10,135)</u>
	<u>\$ 13,785</u>	<u>\$ 17,760</u>

**7. Lease**

The Fund leases its office facilities under a non-cancellable operating lease expiring September 30, 2005. The lease provides for monthly base rent of \$2,467 through September 30, 2003 and annual adjustments thereafter based on the consumer price index. The former lease required monthly rent of \$1,400 through September 2002. Future minimum lease payments are:

Years ended	<u>Amount</u>
<u>June 30:</u>	
2005	<u>\$31,604</u>
2006	<u>7,901</u>

Total rents charged to expense under the leases were \$31,433 and \$26,403 for the years ended June 30, 2004 and 2003, respectively.

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2004

8. **Retirement Plan**

The Fund 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 Fund makes contribution to the Plan each year equal to 10% of all participants' compensation plus 4.3% of compensation in excess of \$34,800 and \$33,960 for 2004 and 2003, respectively, being 40% of the social security taxable wage base in effect on July 1, the first day of each Plan year. Total expense was \$23,302 and \$19,858 for the years ended June 30, 2004 and 2003, respectively.

9. **Deferred Compensation Plan**

The Fund provides a key employee a non-qualified deferred compensation retirement plan. The liability is financed with contributions to Fund owned, participant directed, mutual funds. The assets are payable to the participant upon retirement. Total Fund contributions and net investment gain or loss were \$55,534 and \$37,867 at June 30, 2004 and 2003, respectively.

10. **Line of Credit**

The Fund has a \$750,000 Line of Credit with a bank, expiring February 2005. 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 periods ended June 30, 2004 and 2003.

11. **Related Party Transactions**

The Organization awarded \$42,125 of program grants in 2003 to two organizations, each of which has a director who is a board member of the Fund.