

APPENDIX B: INDEPENDENT AUDITOR'S REPORT

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

Financial Statements and Auditors' Report

June 30, 2007

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 of Central Eastern PA
Allentown, PA

We have audited the accompanying consolidated statement of financial position of The Sustainable Energy Fund of Central Eastern PA (A Not-for-Profit Corporation) and Subsidiary as of June 30, 2007 and the related consolidated statements of activities, functional expense 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. The prior year summarized comparative information has been derived from the Fund's 2006 financial statements and in our report dated August 9, 2006, we expressed an unqualified opinion on them.

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, 2007, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Campbell, Rappold & Yurasits LLP
Certified Public Accountants

September 20, 2007

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the Year Ended June 30, 2007

With Comparative Totals for 2006

	June 30	
	2007	2006
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 3,913,618	\$ 2,764,093
Ratepayer's Contribution Receivable	-	141,716
Accounts Receivable	405	15,062
Accrued Interest Income	25,828	-
Inventory	23,867	-
Investments (Note 3)	15,764,174	13,750,225
Program Related Investments, Net (Note 4)	4,647,087	5,211,469
Office Equipment, Net (Note 5)	56,325	29,122
Prepaid Expense and Deposits	4,791	2,800
Organizational Costs	11,200	14,001
	\$ 24,447,296	\$ 21,928,488
 <u>LIABILITIES:</u>		
Accounts Payable	\$ 66,223	\$ 75,260
Accrued Salary/Benefits	45,677	27,224
	111,900	102,484
 <u>NET ASSETS:</u>		
Unrestricted Net Assets	24,335,396	21,826,004
	\$ 24,447,296	\$ 21,928,488

See notes to financial statements.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007
With Comparative Totals for 2006**

	June 30	
	2007	2006
<i><u>Revenues and Gains</u></i>		
PPL Ratepayers' Contribution	\$ 1,043,611	\$ 2,623,691
Grant Revenue	-	-
Project Revenue	183,762	-
Interest Income - Operating and Money Market	175,815	54,146
Investment Return (Note 3):		
Interest and Dividend Income	366,729	352,980
Net Realized and Unrealized Gains (Losses)	1,745,094	(25,256)
Less Investment Advisory and Custodian Fees	(97,875)	(98,279)
Interest-Program Loans	192,107	144,775
Realized Gain-Program Related Investments	11,088	570,694
Royalties and Dividends-Program Related Investments	-	7,500
Other	-	-
	<u>3,620,331</u>	<u>3,630,251</u>
<i><u>Expenses</u></i>		
Program Services		
Grants Awarded	150,547	163,061
Loss Reserve	(115,899)	95,965
Cost of Good Sold	144,180	-
Operating Expenses	592,197	526,376
	<u>771,025</u>	<u>785,402</u>
Management and General	<u>339,914</u>	<u>394,390</u>
	<u>1,110,939</u>	<u>1,179,792</u>
Increase in Unrestricted Net Assets	2,509,392	2,450,459
Unrestricted Net Assets, Beginning	<u>21,826,004</u>	<u>19,375,545</u>
Unrestricted Net Assets, Ending	<u>\$ 24,335,396</u>	<u>\$ 21,826,004</u>

See notes to financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2007

With Comparative Totals for 2006

	Program Services	Management & General	Total	
			2007	2006
Grants Awarded	\$ 150,547	\$ -	\$ 150,547	\$ 163,061
Program Related Investments		-		
Loss Reserve	(115,899)	-	(115,899)	95,965
Cost of Goods Sold	144,180	-	144,180	-
Operating Expenses:				
Salaries and Wages	207,497	126,686	334,183	323,260
Fringe Benefits	35,027	21,386	56,413	51,971
Payroll Taxes/Fees	21,746	13,277	35,023	37,153
Contract Managers	96,131	-	96,131	109,385
Training	2,458	1,501	3,959	3,759
Recruiting	2,403	801	3,204	21,411
Subtotal Staff	365,262	163,651	528,913	546,939
Rent	25,541	10,657	36,198	35,674
Office Relocation	-	-	-	1,676
Insurance	572	698	1,270	3,197
Depreciation	9,202	3,839	13,041	12,842
Subtotal Occupancy	35,315	15,194	50,509	53,389
Board Stipends	42,075	30,725	72,800	39,000
Board Expense	23,349	11,630	34,979	20,642
Director Recruitment	-	7,314	7,314	13,739
Dues and Publications	4,613	2,816	7,429	7,834
Marketing	42,441	-	42,441	34,628
Office Supplies	10,452	4,361	14,813	16,462
Education Consulting	-	-	-	1,000
Audit	-	10,285	10,285	10,000
Legal	15,867	43,360	59,227	82,614
Due Diligence	14,995	-	14,995	10,329
Organization Design	-	17,675	17,675	3,557
Financial System Support	693	4,352	5,045	831
Printing and Postage	3,258	1,534	4,792	7,139
Telephone	5,138	2,144	7,282	10,194
Travel	21,535	7,178	28,713	36,884
MIS Support/Web Hosting	5,951	7,526	13,477	21,810
Director and Officer Insurance	372	3,347	3,719	2,603
Management Fee		2,000	2,000	-
Amortization of Organ. Costs		2,800	2,800	-
Taxes		709	709	-
Miscellaneous	881	1,313	2,194	1,172
Subtotal Other	191,620	161,069	352,689	320,438
Total Expenses	736,377	339,914	1,076,291	920,766
Totals	\$ 771,025	\$ 339,914	\$ 1,110,939	\$ 1,179,792

See notes to financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

With Comparative Totals for 2006

	Years Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 2,509,392	\$ 2,450,459
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	13,041	12,842
Amortization	2,800	-
Loss Reserve	(115,899)	95,965
Net Realized and Unrealized (Gains) Losses on Investments	(1,745,095)	25,256
Realized Gain-Program Related Investment	(11,088)	(570,694)
Changes in Assets and Liabilities		
Decrease (Increase) in Accounts and Grants Receivables	156,373	145,751
Decrease (Increase) in Interest Receivables	(25,828)	-
Decrease (Increase) in Prepaid Expense and Deposits	(1,991)	2,161
Decrease (Increase) in Inventory	(23,867)	-
Increase (Decrease) in Accounts Payable	(10,676)	51,852
Increase (Decrease) in Accrued Salary/Benefits	20,094	21,824
Net Cash Provided by Operating Activities	767,256	2,235,416
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment and Furniture	(40,244)	(25,785)
Net Purchase of Investments	(268,855)	(254,702)
Increase in Program Related Investments	(1,222,612)	(3,479,395)
Return of Program Related Investments	1,913,980	143,039
Proceeds-Sale Program Related Investments	-	1,070,694
Organizational Expenditures	-	(14,001)
Net Cash (Used) Provided in Investing Activities	382,269	(2,560,150)
Increase (Decrease) in Cash and Cash Equivalents	1,149,525	(324,734)
Cash and Cash Equivalents, Beginning of Year	2,764,093	3,088,827
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,913,618	\$ 2,764,093

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 PPL 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) which expired on December 31, 2006.

The Fund is managed by a president who reports to a Board of Directors. The PUC also maintains oversight of the Fund.

a. Principles of Consolidation

The consolidated financial statements include the accounts of Green Connexions, Inc., a for profit wholly owned subsidiary. All material intercompany balances and transactions have been eliminated. Green Connexions, Inc. was incorporated as a C Corporation in December, 2005.

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, 2007 and 2006, all net assets are unrestricted.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

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.

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 expired December 31, 2006.

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) **Linked Deposits**

A deposit held in an account with a financial institution to induce that institution's support for one or more projects.

(b) **Loans**

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

Program Related Investments (Continued)

(c) 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 judgment, 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.

(d) 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

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.

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:

	2007	2006
U.S. Government Obligations	\$ 2,601,255	\$ 3,217,550
Corporate Bonds	633,027	676,489
Equity Securities	12,207,489	9,308,412
Temporary Cash and Money Market	322,404	547,774
	\$ 15,764,174	\$ 13,750,225

Investment return is summarized as follows:

Interest and Dividend Income	\$ 366,730	\$ 352,980
Net Realized and Unrealized Gains (Losses) on Investments	1,745,095	(25,256)
	2,111,824	327,724
Less Investment Advisory and Custodian Fees	(97,875)	(98,279)
Total Investment Return	\$ 2,013,949	\$ 229,445

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Program Related Investments

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

	2007	2006
<u>Linked Deposit</u>		
Perry Green Building Housing Corporation - certificate of deposit with bank, 1% interest.	\$ -	\$ 1,015,061
<u>Loans</u>		
Powerweb Technologies, Inc. - interest only accrues at 5% per annum, due in full January, 2008	228,000	228,000
Energy Unlimited, Inc. - interest only due monthly at 10%, due December, 2006	-	100,000
Energy Unlimited, Inc. - interest accruing at 7.5%, principal and accrued interest due December 31, 2006	-	200,000
Nova Cruz, Products, Inc. - due March 2007, royalties payable at 3% of net factoring sales, up to a maximum 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 realized value.	50,000	50,000
Londonderry School - due in monthly installments of \$2,773 including interest at 3%, due in full May, 2011	424,971	449,417
Pine Hurst Acres - \$1,000 a month plus interest at 2%, due December, 2012	122,000	134,000

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Program Related Investments (Continued)

	2007	2006
Diocese of Scranton - due in monthly installments of \$1,622, including interest of 2%, due June, 2008.	\$ 222,684	\$ 237,536
CEI - Wind Park Bear Creek, LLC Interest 4.5%, Principal payments subject to available cash, entire balance due December, 2013.	1,360,581	1,704,968
Kountry Kraft Kitchens - due in monthly installments of \$2,760 including interest at 2%, due September, 2012.	249,391	277,226
Juniata County School District - due in monthly installments of \$5,792 including interest at 2%, due 2021.	809,388	861,467
Sun Farm Ventures - due July, 2008 \$126,941 includes 10% interest.	116,097	200,026
Forest City School District - due in monthly installments of \$1,470 including interest at 2%, due May 2021.	215,207	228,396
Kauffman-Gamber - due in monthly installments of \$142, non interest bearing, due October, 2009.	3,967	5,667
Children's Wonderland Child Care Center - due in quarterly installments of \$500, non interest bearing, due April, 2010.	5,500	7,500

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Program Related Investments (Continued)

	<u>2007</u>	<u>2006</u>
Plextronics, Inc. - interest only due at 6 and 12 month anniversaries of the loan at 7.25%; thereafter monthly installments of \$23,244 including interest, due 2011.	\$ 750,000	\$ -
Wanner Farms - interest only due monthly at 6.5% for 12 months; thereafter monthly installments of \$3676 including interest, due 2017.	300,000	-
Town of Bloomsburg - due in monthly installments of \$170 including interest at 5.5%, due Oct. 2011.	7,850	-
Borough of Northampton - due in monthly installments of \$291 including interest at 5.5%, due Nov. 2011.	13,679	-
Borough of Hamburg - due in monthly installments of \$213 including interest at 5.5%, due Dec. 2011.	10,154	-
Muhlenberg Township - due in monthly installments of \$718 including interest at 5.5%, due Jan. 2012.	34,846	-
City of Pottsville - due in monthly installments of \$991 including interest at 5.5%, due Jan. 2012.	48,098	-
Minersville Borough - due in monthly installments of \$392 including interest at 6.5%, due Apr. 2012.	19,444	-
Shenandoah Borough - due in monthly installments of \$405 including interest at 6.5%, due Apr. 2012.	20,127	-
Borough of Mount Carmel - due in monthly installments of \$139 including interest at 6.5%, due May 2012.	<u>7,000</u>	<u>-</u>
	5,018,984	4,684,203
Less Loss Reserve	<u>(371,896)</u>	<u>(487,795)</u>
Total Loans and Refundable Grants, Net	<u>4,647,088</u>	<u>4,196,408</u>
	<u>\$ 4,647,088</u>	<u>\$ 5,211,469</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Program Related Investments (Continued)

In June 2006, Community Energy, Inc. was sold and the Fund received \$1,070,694 for its equity securities. In addition, \$376,125 was placed in escrow subject to adjustments based on the terms of the Merger Agreement. This amount in the escrow will be recorded when the terms of the Agreement are resolved and consideration is issued or becomes issuable.

5. Office Equipment

	2007	2006
Furniture	\$ 28,372	\$ 18,962
Computer and Phone Equipment	78,668	47,834
	107,040	66,796
Less: Accumulated Depreciation	(50,715)	(37,674)
	\$ 56,325	\$ 29,122

6. Lease

The Fund leases its office facilities under a non-cancellable operating lease expiring September 14, 2008. The Organization also leases office equipment under a non-cancellable operating lease. Future minimum lease payments are:

Years ended June 30:	Office	Equipment
2008	\$ 34,700	\$ 1,194
2009	7,250	-

Total rents charged to expense under the leases were \$34,100 and \$34,500 for the years ended June 30, 2007 and 2006, respectively.

7. 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 3% of all participants' compensation. In addition the Fund elected to make a discretionary contribution of 1% of salaries, for the year ended June 30, 2007. Total expense was \$18,043 and \$24,112 for the years ended June 30, 2007 and 2006, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

8. Line of Credit

The Fund has a \$1,000,000 Line of Credit with a bank, expiring January 2008. Interest on borrowings is payable at the bank's prime rate minus 1%. There were no borrowings on the line as of or during the periods ended June 30, 2007 and 2006.

9. Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by a net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2006 from which the summarized information was derived.