

**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, 2001

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

PP&L SUSTAINABLE ENERGY FUND
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INDEPENDENT AUDITORS' REPORT

Board of Directors
PP&L Sustainable Energy Fund
d/b/a Sustainable Energy Fund of
Central Eastern PA
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, 2001 and the related statement 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, 2001, 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

August 17, 2001

PP&L SUSTAINABLE ENERGY FUND
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STATEMENT OF FINANCIAL POSITION
June 30, 2001

ASSETS:

Cash	\$ 812,041
Ratepayer's Contribution Receivable	266,104
Royalty Receivable	2,160
Investments (Note 3)	6,526,852
Program Related Investments, Net (Note 4)	334,167
Office Equipment, Net (Note 5)	9,410
Deposits	<u>875</u>
 Total Assets	 <u><u>\$7,951,609</u></u>

LIABILITIES:

Accounts Payable	\$ 25,089
Accrued Employee Benefits	<u>18,251</u>
 Total Liabilities	 <u>43,340</u>

NET ASSETS:

Unrestricted Net Assets	<u>7,908,269</u>
 Total Liabilities and Net Assets	 <u><u>\$7,951,609</u></u>

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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STATEMENT OF ACTIVITIES
Year Ended June 30, 2001

Revenues and Gains:

PPL Ratepayers' Contribution (Note 8)	\$8,196,762
Interest Income	26,050
Investment Return (Note 3)	76,852
Royalties	2,160
Other	<u>18,300</u>
 Total Revenue and Gains	 <u>8,320,124</u>

Expenses:

Grants Made	35,401
Loss Reserve	<u>15,000</u>
 Total Program Expenses	 <u>50,401</u>

Salaries and Wages	107,595
Fringe Benefits	29,178
Payroll Taxes	10,613
Training	1,425
Rent	9,980
Insurance	3,842
Depreciation	2,029
Furniture Rental	300
Dues and Publications	463
Marketing	6,771
Printing and Postage	6,742
Telephone	4,864
MIS Support/Web Hosting	1,466
Start-up Costs (Note 8)	103,332
Board Expense/Stipends	12,523
Professional Fees	42,095
Travel	10,799
Office Supplies	5,610
Miscellaneous	<u>1,827</u>

Total Management and General Expense 361,454

Total Expenses 411,855

Increase in Unrestricted Net Assets 7,908,269

Unrestricted Net Assets, Beginning —

Unrestricted Net Assets, Ending \$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, 2001

Cash Flows from Operating Activities:

Increase in Net Assets	\$7,908,269
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	2,029
Loan Loss Reserve	15,000
Increase in Accounts Receivable	(268,264)
Increase in Deposit	(875)
Increase in Account Payable	25,089
Increase in Accrued Employee Benefit	18,251
Loss on Investments	<u>90,931</u>
 Net Cash Provided by Operating Activities	 <u>7,790,430</u>

Cash Flows from Investing Activities:

Purchase of Office Equipment and Furniture	(11,439)
Purchase of Investments	(6,989,723)
Proceeds from Sale of Investments	371,940
Increase in Program Related Investments	(350,000)
Return of Program Related Investments	<u>833</u>
 Net Cash Used in Investing Activities	 <u>(6,978,389)</u>
 Increase in Cash and Cash Equivalents	 812,041
 Cash and Cash Equivalents, Beginning of Year	 <u>—</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 812,041</u>

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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 PPL 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, PPL 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 Board members were nominated by the various petitioners to the joint settlement agreement. 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, 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Concentration of Revenue

The Organization receives a substantial amount of its support from the PPL ratepayer's 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, principally the members of the Board of Directors, 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

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.

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 who are predominately located in central eastern Pennsylvania and associated with the power 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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 June 30, 2001 were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Government Obligations	\$ 940,792	\$ 969,321	\$ 28,529
Corporate Bonds	807,047	802,414	(4,633)
Equity Securities	4,379,127	4,244,038	(135,089)
Temporary Cash and Money Market	<u>511,079</u>	<u>511,079</u>	<u>—</u>
	<u>\$6,638,045</u>	<u>\$6,526,852</u>	<u>\$(111,193)</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$195,368
Net Realized and Unrealized Losses	
On Investments	<u>(90,931)</u>
	104,437
Less Investment Advisory Fees	<u>(27,585)</u>
Total Investment Return	<u>\$ 76,852</u>

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June 30, 2001

4. Program Related Investments

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

\$500,000 Loan Receivable, 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. Borrower Pays Monthly Royalties at 3% of their Gross Revenue up to a Maximum of \$1,300,000 Over the Term of the Loan. Secured by Assets of the Borrowers.	\$249,167
\$100,000 Loan Receivable, Interest Only at 10%, Due February, 2006. Secured by Assets of the Borrower	<u>100,000</u>
	349,167
Less Loss Reserve	<u>(15,000)</u>
	<u>\$334,167</u>

5. Office Equipment

Furniture	\$ 6,904
Computer Equipment	<u>4,535</u>
	11,439
Less Accumulated Depreciation	<u>(2,029)</u>
	<u>\$ 9,410</u>

6. Lease

The Organization leases its office facilities under a non-cancellable operating lease commencing January 1, 2001 through June 30, 2003 with automatic one year renewal terms thereafter. Future minimum lease payments under the lease are:

Years ended June 30:	<u>Amount</u>
2002	\$16,800
2003	19,200

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June 30, 2001

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 for the year ended June 30, 2001 was \$11,980.

8. Startup and Pre-Operating Activities

Included in Ratepayer Contributions in the accompanying Statements of Activities is \$4,663,323 of surcharges collected for the period January 1999 (inception) through June 30, 2000 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.