

**SUSTAINABLE ENERGY FUND
OF CENTRAL EASTERN PENNSYLVANIA**
(As Established by the PUC-PP&L Utilities Settlement Agreement)
Docket # R-0093954

Annual Report

To The

Pennsylvania Public Utility Commission

And To The

Joint Petitioners

**For the Period
July 1, 2002 – June 30, 2003**

October 7, 2003

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Our mission is 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.

1.0 OVERVIEW ON MISSION PROGRESS

This is The Sustainable Energy Fund of Central Eastern Pennsylvania's (SEF) third annual report to the Pennsylvania Public Utility Commission (PUC) and to the joint petitioners in the PPL Utilities restructuring proceeding (Docket # R-0093954). It discusses the progress that SEF has made in the period from July 1, 2002 through June 30, 2003.

Our principal measure of impact relates to mission accomplishment, what we are doing 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. As we complete our third year of operation, we can report that we are making significant progress.

Several specific areas are noteworthy:

- Wind power development in Pennsylvania and elsewhere in PPL territory
- Significant growth in Leadership in Energy and Environmental Design (LEED)-certified green buildings
- Emerging electric technologies
- Community economic development
- Sustainable energy education

Wind Powering Pennsylvania

Encouragement and support of wind power development has been a major theme for SEF. We believe we are a key factor in Pennsylvania's emergence as the major wind power state east of the Mississippi, and in PPL's having the highest concentration of wind farms in the state. Our wind power strategy has been comprehensive, involving financial support on both the supply and demand sides, leadership in organizing public/private partnering, creative structuring to address financial risk sharing (particularly relative to green certificates), and education.

We are pleased to have been singularly recognized for our role in furthering wind power in Pennsylvania at the Penn Future "Getting to 10 Percent" annual conference of sector leaders.

By the end of 2004, we expect three major new wind farms to be operational in PPL's territory, with some degree of SEF involvement in all. They are as follows:

- Bear Creek @ 20 MW
- Undisclosed @ 40 MW
- Waymart @ 61.5MW

We played the strongest role in the Bear Creek project, less than 10 miles southeast of Wilkes-Barre. We championed support amongst the other Pennsylvania Funds and helped to broker the power purchase agreement by PPL. Made a \$1.5 million subordinated debt commitment, complementing a further \$3 million syndication, in process, by the other Pennsylvania Funds. Sustainable Development Fund (SDF) made a \$2 million subsidy rebate commitment from the dedicated wind funds from the PECO/Utilicom merger. Community Energy, Inc. (CEI), in which SEF holds equity and debt position, is the co-developer of this site.

The undisclosed project, is being developed by Energy Unlimited. SEF has been a debt financier of Energy Unlimited since 2001, with this site as the primary Pennsylvania site for which the funds were provided. Additionally, in April 2003, we made a \$200,000 loan commitment to the company to fund the interconnection studies. We met routinely with the developer over the last year to understand how to best support the project. We expect that Energy Unlimited will soon publicly announce the site.

Lastly, the Waymart project will be operational before year-end 2003. Our involvement is indirect, although we did consider other options. CEI has the exclusive marketing rights on power produced, a key factor in securing the power purchase agreement and decision to build.

We previously reported on our \$1,150,000 subordinated debt commitment to the Somerset Wind Project. That 9MW project is operational.

On the demand side, we hold an equity position in CEI and provide debt financing and a line of credit. We are one of CEI's founding investors, and the only Clean Energy Fund that has a program-related investment. A number of state funds have, however, provided grants, including New York, New Jersey, Massachusetts, Connecticut, and Illinois, and CEI also received \$3.5 million in grants from the PECO merger. We have a Board monitoring seat and regularly meet with CEI.

CEI has emerged as a critical player in wind power success throughout the country. Through its wind power marketing business, it has been responsible for 310,000 MWhr of purchases in the past year, enough to power 30,000 residential households. This business is growing at a 100% rate. CEI has expanded its business model to include selective development roles in which its marketing

expertise can be a critical factor in successfully completing a commercial wind farm.

Other dimensions of our wind power focus include providing debt financing to Advantek, an engineering and material sciences company in its early stages that is focused on next-generation blade technology. Advantek has moved its operations from Delaware to Pennsylvania. SEF made a \$250,000 loan commitment to Advantek.

The wind power market is still very new in the East. SEF has attempted to utilize its national network of Clean Energy Funds, as organized in the national association of state sustainable energy funds, the Clean Energy States Alliance (CESA), to determine what is working and what is not working throughout the country in regard to the wind power market. To determine how to best structure wind power programs in Pennsylvania, through CESA we initiated and are co-directing a Lawrence Livermore National Laboratory project to investigate case studies on various state wind power incentive programs.

SEF is also a participant in a second CESA project on small wind power incentive programs, in anticipation of greater demand as the utility-grade projects bring greater attention to wind power. During the past year, the need to consider further risk reduction as a means of encouraging power purchase agreements emerged. We began communicating with other states, particularly Massachusetts, to evaluate green certificate trading and/or insurance programs. Green certificate trading has been an active subject in our public/private “Wind Powering Pennsylvania” workshops, as well as the need to recruit more funds to wind power development.

Relating to education, at HersheyPark, which receives 2.4 million visitors a year, we inaugurated, with PA DEP, the park’s wind and solar power exhibit and theater performance. Through our grantee EFMR Monitoring Group, we completed a wind power educational curriculum, available to grades K through 12, within SEF territory and public schools across Pennsylvania.

Growth in LEED-Certified Green Buildings

Pennsylvania has the second highest number of LEED-certified buildings in the country. We are supporting an abundance of activity in PPL territory in various ways, as follows:

- \$500,000 loan to the Londonderry School, Harrisburg, toward construction of a new LEED Silver school. Our commitment enabled the school to acquire a \$2 million loan from Waypoint Bank. We attended groundbreaking of the school in January 2003.

- \$25,000 grant to St. Stephens Cathedral School, Harrisburg, toward construction of a LEED Silver school addition. We have since committed additional funds for a photovoltaic system.
- \$19,510 grant to Eastern York School District toward construction of a LEED-certified school and a PV installation.
- Disbursed an additional \$25,000 grant to the Green Building Association of Central Pennsylvania as a result of its significant progress in educating professionals and building owners in green building design.
- PPL has opened a new company headquarters building that we hope will win LEED Gold certification, which would make it one of only two such commercial buildings in the U.S. Although we did not participate in the construction financing, we believe that our work with PPL executives in support of clean energy initiatives was a contributing factor in this project's success.
- \$1,060 grant to SEDA-COG, an 11-county community development organization in Lewisburg, to explore green building options. This grant has contributed to SEDA-COG's decision to build an Energy Resources Center, a LEED Silver office building. It is through this energy center that SEDA-COG delivers energy audit and other services to the residential and small business sectors. SEF is currently leading the \$2.1 million finance syndication of this new building with the West Penn and Penelec Sustainable Energy Funds and a local bank.

Emerging Technologies

- Our financing of PowerWeb, in collaboration with SDF as the lead, has produced valuable products. PowerWeb designed the technology for the new Westinghouse Lighting Retrolux t-5 wireless light bulb. This highly efficient technology is a 30% improvement over current state-of-the-art commercial lighting and is the first of a class of *smart building* lighting technologies. It is progressing through UL approval, and a contract for the first 10,000 units has been awarded. PowerWeb load management software, a separate business line focused on demand side management, was installed in over 100 major industrial sites in PJM Territory, covering some 800 mW of contracted controllable load during times of peak demand.
- In collaboration with PA DEP, SEF sponsored a grant to facilitate technology transfer of the application of microturbine technology for conversion of municipal sewage treatment digester gases to electric power and heat. This application indicated that the technology is not yet

ready for broad distribution. We are therefore redirecting those funds to another municipal clean energy application in Lancaster.

- The promotion of light-emitting diode (LED) technology in traffic signal applications has begun. Such applications have been found to result in 80 to 90% energy savings, reduced maintenance, enhanced safety benefits, and a 2- to 3-year payback time. We have committed to a \$21,000 grant to the City of Lancaster, Department of Public Works to conduct a demonstration project and associated technology transfer assistance to encourage the adoption of LED technology throughout central Pennsylvania.
- We have been an early member and financial supporter of the Alternative Fuels Council as it seeks to further the Commonwealth's position to reduce dependency on foreign fuel. SEF is a sponsor of the Alternative Fuels Council's first conference.
- We are committed to wind power next-generation blade technology, through Advantek, as mentioned previously.
- We are encouraging photovoltaic power generation for appropriate applications. Our HersheyPark project has a strong PV footprint. SEF has entered into another cooperative agreement with the Sustainable Development Fund, our long-term partner on several activities, to co-fund several PV demonstration projects. SEF has made commitments for PV demonstration grants to Illicks Mills in Bethlehem, Souderton Area School District, Eastern York School District, and St. Stephen's Cathedral School in Harrisburg.
- See next section for our efforts in electric vehicle technology in Scranton.

Community Economic Development

Our financing of the following projects is representative of our progress in community economic development, and a further means to benefit the residential community:

- The SEDA-COG financing activity, a \$2.1 million syndication being developed, supports community economic development in eight counties in the northwest sector of our territory. We hope to have the financing activity completed before the end of 2003. SEDA-COG is an 80 person organization delivery service to the residential and business community. 30% of those services are energy related.
- We provided an \$180,000 loan to the Allentown Technology Center, a business incubator anchoring a critical boundary to the downtown

Allentown revitalization effort, to improve energy efficiency with a state-of-the-art computerized energy control system.

- In Lower Windsor Township, we assisted with a grant for a new LEED-certified township building.
- In Lancaster, we are providing grant funding to Community Basics, Inc. (Lancaster Housing and Community Development) to evaluate the use of deep quarry water as a specialized heat exchange medium for a 300-unit residential housing project that the city has committed to make as green as possible.
- In Hazelton, we are providing grant funding to the Pine Street Project, which consists of 24 units of residential housing built to Energy Star standards.
- We have been very active in Scranton. Last year we reported on our success in recruiting and relocating an emerging electric vehicle company, Nova Cruz LLC, from New Hampshire to Scranton. Unfortunately, the company's new product did not achieve the market acceptance hoped for and the company discontinued operations. SEF was the largest secured creditor with fiduciary responsibility of recovering funds on behalf of all creditors and shareholders.

We were equally committed to make every effort to recruit a new electric vehicle company to the area, to preserve both jobs and the technology footprint. We are pleased to report that with participation from Scranton Chamber of Commerce, DCED, and Ben Franklin Technology Partners, we were able to recruit Oxygen SpA, a leading electric vehicle manufacturer in Italy, to Scranton. Although Oxygen SpA is still in its early stages, it has selected Scranton as its North American headquarters. (The sale of assets was completed in August 2003; beyond this reporting period, however, it is appropriate to note that we were also instrumental in the development of a new entity, Xootr LLC, that purchased assets of the company and has also indicated its intention to remain in Scranton.)

Education:

SEF has a significant commitment to sustainable energy education in PPL territory and Pennsylvania. We believe our current portfolio upon fulfillment will result in over 10,000 student-learning experiences per year. We have determined, however, that a far greater need must be addressed, which involves opportunities to educate tomorrow's consumers and decision makers. We intend to continue our education program, as evidenced by the following.

- \$84,000 grant to HersheyPark for wind energy and photovoltaic exhibits and associated sustainable energy theater production. The family theme and clean environment focus of the park, coupled with its high-volume exposure, provide a wonderful opportunity to educate. This year, with our partner, PA DEP, we were able to establish our education foothold. We are currently in discussions with HersheyPark for future opportunities to educate the public on the benefits of green energy.

- Wilson College has an existing environmental focus, The Fulton Center for Sustainable Development. Wilson College requires that all of its undergraduates take at least one environmental course. It also operates a sustainable farm that supplies a significant part of the college's cafeteria needs, an adult education program, and a summer camp for children focused on environmental learning. We have committed to a \$25,000 grant, which will allow Wilson College to include sustainable energy topics in all of its programs, particularly those addressing residential consumers. Wilson College has agreed to include sustainable energy topics in a fashion that will allow adoption by others.

- SEF has made commitments for PV demonstration grants to the following:
 - Illicks Mills for Bethlehem Schools
 - Souderton Area School District
 - Eastern York School District
 - St. Stephen's Cathedral School, Harrisburg
 - Grant support to the Clean Air Council in developing an interactive program to teach renewable energy in Pennsylvania
 - EFMR wind energy curriculum development for grades K through 12 (completed)

We hope to add a full-time Education Director to our staff.

Summary:

We are very satisfied with our contribution to date in building a new sustainable energy environment within PPL territory and throughout Pennsylvania. We also understand there is much more to do. Our balance sheet and our market position in developing sustainable energy technologies, businesses, and capabilities remain strong.

As we enter our fourth year, we are preparing to expand our capabilities and market influence as reported (see Section 4). We believe we are well-positioned to have a major influence on developing an improved, sustainable energy environment in Pennsylvania.

2.0 ACCOMPLISHMENTS

2.1 Program-Related Investment and Grant Commitments

We received close to 200 inquiries and/or financing requests during the subject period. Each financing request was reviewed by Staff against the Board-approved investment criteria. The investment criteria guidelines are presented in our Annual Plan and on the web site www.SustainableEnergyFund.org. The status of all inquiries and requests is reported to the Board quarterly.

Financing requests that score favorably against our investment criteria, fit the requirements of the Annual Plan, and are supported by available funding are presented to the Investment Committee for review and analysis. Financing requests approved by the Investment Committee are recommended to the full Board. The Board, either at quarterly meetings or by special session, makes the final decision on all grants and program-related investments.

During the subject period SEF made \$3,226,234 in commitments, of which \$221,234 were grants and \$3,005,000 were program-related investments.

- **Grants \$221,234**
 - \$25,000 to Lower Windsor Township to finance energy modeling, LEED energy documentation, and building commissioning for a new green municipal building.
 - \$19,510 to Eastern York School District to finance installation of a donated solar photovoltaic system (2 kw) and to develop supportive curriculum materials.
 - \$20,000 to Community Basics, Inc., to fund a feasibility study on the application of a deep quarry reservoir as a source of heating/cooling for a community development project.
 - \$21,000 to the City of Lancaster, Department of Public Works to support a demonstration project for the use of LED technology for traffic lights within the city, with resultant energy savings of 90% and a 2-year payback time.
 - \$16,000 to HersheyPark for the development of the Sustainable Energy Green Team Theater production that accompanies the Renewable Energy Exhibit, partnered with equal contribution from PA DEP.
 - \$10,500 to Illicks Mill Partnership for Environmental Education to support the installation of PV on the roofs of several new entrance canopies planned for the mill.
 - \$15,000 to St. Stephens Cathedral and School to install up to 6 kW of roof-mounted photovoltaic panels on the existing buildings as part of the grades K through 8 project underway at the site.

- \$7,500 to the Clean Air Council to develop an interactive, renewable energy education kiosk and web site for use in museums and schools.
 - \$1,500 to the Pennsylvania Alliance for Environmental Education (PAEE) to support its annual conference.
 - \$500 to the Earth Charter Summit for meeting support.
 - \$17,250 to EFMR Monitoring Group (Phase II) to field test, revise, and enable wind energy lesson plans for web site deployment.
 - \$25,000 to Wilson College to develop sustainable energy curriculum to extend to its current field programs and summer camp.
 - \$10,000 to PPL Environmental Education Centers at Lake Wallenpaupak and Montour to incorporate wind education into the curriculum and to install demonstration wind turbines.
 - \$5,000 to Souderton Area School District for installation of solar PV panels donated by Community Energy, Inc.
 - \$5,000 to the Alternative Fuels Council to fund conferences focused on alternative fuels.
 - \$9,433 to CESA for our membership support to the nationwide alliance of state clean energy funds.
 - \$2,000 to Penn Future to support the Getting to 10% Conference.
 - \$1,000 to Elizabethtown College for solar panels to incorporate into a semester-long project.
 - \$5,000+ installation inspection to Geisinger Medical Center to install solar-powered lighting at the patients and visitors bus shelters.
 - \$1,000 to CH&E Construction to install PV lighting for a project sign at the St. Stephens Cathedral and School green building project.
 - \$1,500 to Nature's Grace Store to install photovoltaic solar panels at the store.
 - \$980 to the Unitarian Church of Bethlehem for an energy audit on its historic church.
 - \$1,061 to SEDA-COG for an energy audit on its headquarters building.
 - \$500 to Ben Franklin Technology Partners for conference support.
- **Program-Related Investments: \$3,005,000**
 - \$180,000 loan to Allentown Technology Center to finance a state-of-the-art building energy control system for this technology incubator located in downtown Allentown.
 - \$500,000 loan to Londonderry School in Harrisburg for construction of a LEED Silver building for the school and development of a sustainable energy curriculum.
 - \$250,000 line of credit to Community Energy, Inc., to further finance its very successful program of wind energy marketing and development in Pennsylvania.

- \$125,000 loan to Nova Cruz LLC with royalty payback and warrants for dealer development of electric vehicle.
- \$200,000 loan to Energy Unlimited, Inc. (Mountaintop Wind Farm Project) to help fund interconnection costs.
- \$250,000 loan to Advantek to purchase, install, and grid connect two 450-kW wind turbines at Energy Unlimited's Mountaintop Wind Farm to test Advantek's IPC technology.
- \$1,500,000 subordinated debt to Community Energy, Inc., for the Bear Creek Wind Farm project located in Luzerne County

There is some delay between Board commitments and cash disbursements as the legal documents are drafted, further negotiations are conducted, and project conditions are satisfied. Additionally, a recipient may choose to cancel or delay a project or finance it through other means. Most of our current-year commitments have not yet been disbursed.

From previous years' commitments, the \$1,150,000 loan commitment to the Somerset Wind Farm, part of a \$4.5 million syndicated commitment amongst the Pennsylvania Funds, was not completed. The project sponsors chose comprehensive funding from FPL (previously Florida Power and Light).

During the subject period, one of our portfolio companies failed. Nova Cruz LLC was unsuccessful in introducing its "Voloci" electric vehicle to market. The company did request additional funding from us, but our due diligence indicated that additional funds from us would not be adequate to stabilize the company. The company chose to discontinue operations; see note of the Auditors, Appendix B for financial details.

Although we realize that electric vehicle introductions are difficult, we nonetheless were disappointed with the failure of the Voloci product. As Nova Cruz's principal creditor, SEF became responsible for the sale of assets on behalf of all creditors and shareholders. This activity gave us the opportunity to recruit two new firms to Scranton to continue Nova Cruz's objectives. Oxygen, SpA, a leading Italian developer of electric vehicles, chose Scranton as its North American headquarters. In addition, Xootr LLC formed and located in Scranton to purchase a portion of Nova Cruz company assets and continue the non-electric operations. We successfully completed the sale of assets to best satisfy our fiduciary responsibilities and believe that our mission objectives remain intact.

2.2 Operation

Several areas of SEF operations were enhanced during the year as follows:

- Organized and hosted the annual 3-day Sustainable Energy Partners Retreat, including all Pennsylvania Funds, and some 70 participants. SEF also hosted two quarterly meetings of the Funds.

- Assisted PA DEP in development of the Energy Harvest Grant Program, worth \$5 million. We also assisted eight entities with 13 projects in submitting materials for funding consideration.
- On behalf of the Pennsylvania Funds, prepared and submitted the “Blueprint for Sustainable Energy Development in Pennsylvania” to the new Administration Energy Transition Team. This established a good foundation for subsequent activities with agencies, particularly PA DEP, with whom we continue to enjoy a strong partnering relationship.
- With PA DEP, SEF hosted the first workshop “Commercialization of Stationary Fuel Cells and Hydrogen Economy in Pennsylvania.”
- SEF hosted the public/private workshop on “Wind Powering Pennsylvania,” the first of a planned series of three workshops continuing through 2004. We consider this a key Commonwealth activity to ensure continued success.
- SEF has been a regular participant in CESA. Our Executive Director is on the Executive Committee of CESA. Activities included a 2-day visit with the National Renewable Energy Laboratory, Colorado, to strengthen our ties to the national leading technical center for sustainable energy.

During the subject period, because of staffing shortages, we experienced periods in which we found it difficult to satisfy the opportunities presented. Although we added two positions in October 2002, our current staff complement has only 3.5 FTE (Full Time Equivalent), which has proved inadequate. To address this situation, the Board has approved three additional positions that are described in Section 4.

2.3 Governance

Within Pennsylvania, there are four regional Sustainable Energy Funds, each created by PUC order as a result of deregulation settlements for specific electric utilities, and their respective territories. The Boards of the three other Pennsylvania Funds, representing PECO, GPU (now First Energy), and West Penn Power, chose to contract their administration of their funds to existing institutions.

The SEF Board chose a more direct and active form of involvement by recruiting an Executive Director and building its own staff and organization, which we believe is proving to be very effective in accomplishing our mission. However, it does place a greater burden of involvement on our Directors.

During the year, the Board reviewed not only operations, but also governance policy and structure against both current and projected needs. As a result, the Board decided to expand the committee structure and the frequency of meetings, and to enhance the governance processes and documentation. Much of the governance restructuring dovetailed to operational improvements.

As a result of our self-appraisal, we enhanced programs in the following areas:

- Process and documentation for grants and program-related investments
- Filing systems and funding request documentation
- Human Resource systems
- Standard Operating Practices on financial work processes
- Financial forecasting and reporting

The Board had previously operated with an Administration/Finance and an Investment Committee. Its new structure has Finance, Human Resources and Administration, and a Grant and Program-Related Investments Committee (the Investment Committee). The Finance Committee also functions as our Board Audit Committee. We also developed an Organizational Design document, which defines the duties and responsibilities of the Board, its Committees, and staff.

Our Board met five times during the subject period, conducted an additional 11 Committee meetings, and was well-represented at both our Partners Retreat III and the Penn Future "Getting to 10%" Conference. (As we begin the new year and prepare for our funding renewal, in the first quarter of the new fiscal year, the Board and Committees have already met six times.)

Our Board clearly takes its responsibilities seriously and is actively involved in direction and oversight of the SEF. We are fortunate to have a diverse, fully involved Board and are grateful for all they do.

3.0 FINANCIAL REPORTS

The SEF completed its third full year of operations with over \$12 million in net assets and an additional \$5 million in projected ratepayer income through 2004.

The results of our financial activities and balance sheet for this reporting year are presented below. Further details are presented in the Independent Auditors Report, Appendix B.

3.1 Income

PPL Ratepayers

As ordered by the PUC, we receive a monthly transfer of money from PPL, as a system benefit charge, dependent on electric usage during the prior month. During the subject period we received \$3,416,050.

Royalties and Interest Payments from Program-Related Investments

We are a non-profit foundation organized in accordance with section 501(c)(3) of the Internal Revenue code. As such, our program-related investments are focused on our charitable mission of assisting in the creation of a sustainable energy environment, with financial reward not the prime purpose. Our financial reward expectations and “deal structure” must be more favorable to the recipient than normal commercial terms.

Additionally, we attempt to structure investments so that we may “recycle” funds to other worthy applicants. As a result, we structure a transaction to favor short-term over long-term returns; we favor a royalty payment during the life of a transaction, versus holding out for higher equity returns, but only upon a liquidity event after many years. Conversely, we will stagger interest and/or royalty payments to be “back end loaded” to provide the recipient greater internal cash flow in its early stages. The terms of each deal are structured to balance the needs of the specific project with that of the greater good, all to accomplish our sustainable energy market development mission.

Our early-stage companies can experience cash flow and other operational difficulties. We attempt to work with them through such problematic periods.

During the subject year, our royalty and dividend payments received were \$10,714, and our interest payments received were \$27,026.

Recruiting External Funds

During the year, we began to explore the potential of recruiting external funds to SEF as a means to further leverage our ratepayer capital. We solicited experienced Board participation, retained a consultant, prepared proposals, visited three of the largest Foundations, and joined in similar activities sponsored by CESA. We also successfully submitted for the PA DEP “Energy and Environmental Challenge Grants.”

In general, the major Foundations, our principal focus, are not prepared to participate at this time. They have all suffered setbacks in their funds resulting from a 3-year decline in the equity markets. Additionally, the concept of making program-related investments, versus grants, is still new to them. However, we did

find long-term interest and a commitment to continue a dialogue. SEF and SDF are amongst the five funds from across the country that have been invited to a 3-day workshop, hosted by the Rockefeller Foundation with CESA participating, which includes over two dozen Foundation and Venture firms that will address the topic in depth. Until the Foundations recover, we will focus our efforts on relationship development through the CESA activity.

We received two grant agreements from PA DEP with a total potential funding of \$135,000. The use of funds is intended to supplement SEF funding to worthy projects. During the subject year \$37,842 was expended on the following projects:

- HersheyPark Renewable Energy Exhibit
- The SEF-sponsored “Wind Powering Pennsylvania” public/private workshops
- The PA DEP/SEF-sponsored workshop on “Commercialization of Stationary Fuel Cells and Hydrogen Energy in Pennsylvania”

Leveraging the Funds of Others

Our intent is to jumpstart the marketplace development of sustainable energy within PPL’s territory and the Commonwealth. Two key objectives include leveraging additional, external funds into projects and reducing project hurdles so that a project with marginal financial returns can be approved. Our stated objective is to push “*but for us*” projects.

In these areas, it is difficult to measure our market impact, but we understand its importance and continue to invest time and effort in areas in which our involvement, often our willingness to finance, provides the needed confidence for decision makers to proceed, although they may choose other financing. This was the case for the Somerset Wind Farm Project. Also, we worked with two school districts that were considering green building projects in which we believe our willingness to finance loans to cover upfront costs with payback from future energy savings was instrumental in project approval, but wrapped into overall project bond financing.

Virtually all of our program-related investments leverage other funding. We believe we are achieving \$3 of other funds for each \$1 we invest.

3.2 Asset Management

For portfolio planning purposes, our “assets” fall into four categories as follows:

- Interest-bearing cash in bank, which we use to meet operating costs and program-related investment commitments, as well as to build reserves.

- PPL ratepayers commitment, which acts as a fixed rate security, yielding a predictable future funding stream. Although not strictly an asset, in accounting terms, we recognize its positive attributes in our portfolio planning.
- Program-related investments, which are mission-oriented and carry a higher risk profile than would be found in a commercial portfolio.
- An investment portfolio of marketable debt and equity securities, managed by two professional investment managers.

Our Finance Committee conducted a review of our Investment Policy in December 2002 and reviewed the performance of the two Asset Managers. As a result of the review, modest changes were made to the policy and procedure, relative to screening and monitoring of investments in support of our environmental/social mission. The portfolio mix was revised to 65% equities and 35% fixed income securities. During the year we terminated the relationship of one manager, and retained the services of Delta Capital Management of New York City.

The combination of a strong cash position, monthly income from the ratepayers, and an untapped \$750,000 line of credit at Wachovia are deemed adequate to meet our currently planned operating costs and program-related investments. Our current 5-year financial forecasts recognize actual portfolio performance to date, and project future market returns at a 7% annual rate.

During the year, at various times, we moved \$1 million into the investment portfolio. At period end, invested securities are valued at \$8,355,053. With net of fees and new capital, the assets increased by \$196,881.

3.3 Operating Expenses

At the October 2002 Annual Meeting, the SEF Board approved an annual budget of \$622,314 for the year ended June 30, 2003. This included both program costs and management and general expenses. Actual operating expenses for the period were \$518,772, approximately 15% under budget. Of this amount, \$191,114 was for management and general expenses.

3.4 Program-Related Investments

As reported in section in Section 2.1, during the year SEF made program-related investment commitments of \$3,226,234.

3.5 Health of Balance Sheet

The SEF completed the year with net assets of \$12,203,454.

At the end of the year, cash and equivalents and accrued PPL income totaled \$2,866,518. We judged this level of cash necessary and adequate to support our commitments, not yet disbursed.

Total liabilities were \$103,397.

4.0 NEXT STEPS

The SEF is at its critical development stage. Our funding has been ordered by the PUC through December 2004.

PPL has announced that it will seek a T&D rate adjustment at that time. We are pleased to report that PPL has requested that we submit a proposal for consideration as part of its rate submittal. The Board has accepted this offer and we are in the process of preparing the proposal. We have also retained legal counsel, Thomas, Thomas, Armstrong, and Niesen to represent SEF as a potential intervener in support of that component of the rate case. The Board has also examined any potential conflict of interest among Staff and Board Members. As a result, two Board Members have recused themselves from renewal deliberations.

Success in renewal ensures our continuance and mission fulfillment. Without renewal, we forecast need to exit operations in 2007. We enjoy significant support from many parties and are optimistic that our funding will be renewed. We believe it is critical to continue to build operations to meet both today and tomorrow's opportunities and demands. In that regard, the Board has approved and we are recruiting three new full-time positions, bringing us to 6.5 Full-Time Equivalents, as follows:

- Managing Director Operations — reporting to the Executive Director, responsible for day-to-day operations
- Loan Officer
- Entry-Level Professional with sustainable energy training, to assist in both marketing and program areas

Assuming funding renewal, and that our funds continue to leverage applicants and other private and public funds, and that we continue to recycle funds over an average 5-year cycle, we believe we will accomplish a \$1 billion infusion of new capital to this mission in our territory. We believe this will create a 1,000-mW equivalent of sustainable energy over a 20-year forecasted life of SEF*.

We believe we have a clear vision of the sustainable energy marketplace and have achieved a position of influence. We understand the challenge, and we understand our job. We intend to accomplish it.

* \$60m rate payer and other seed funds X 4 fold leverage X 5 year cycle time/20 years horizon=\$1 Billion. \$1M is roughly equivalent to 1 MW sustainable energy installed capacity.

Appendix A

Board Membership

<p>Eric J. Epstein Board President EFMR Monitoring Group 4100 Hillsdale Road Harrisburg, PA 17712-1419</p>	<p>Andrew McElwaine Member, Human Resource Committee PA Environmental Council 130 Locust St., Suite 200 Harrisburg, PA 17101</p>
<p>Marcus Sheffer Board Vice President Member, Investment Committee Energy Opportunities, Inc. 1200 East Camping Area Road Wellsville, PA 17365-9783</p>	<p>Arthur Morris Chair, Human Resource Committee Members, Finance and Investment Committees Utilities Solutions 222 West Orange Street Lancaster, PA 17603</p>
<p>Gary F. Lamont Board Secretary & Treasurer Chair, Finance Committee Conyngham Pass SR93, P.O. Box 702 Conyngham, PA 18219-1170</p>	<p>Brian C. Nagle Chair, Investment Committee Member, Human Resource Committee PPL, Services Corporation Two North Ninth St. GENTW17 Allentown, PA 18101-1170</p>
	<p>Craig C. Onori Member, Investment and Finance Committees AGERE Systems Room 12B 155 1110 American Parkway NE Allentown, PA 18109</p>

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

Financial Statements and Auditors' Report

June 30, 2003

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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CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants

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SUSAN S. KOSS, CPA
FRANK S. RICICKI, CPA
HEIDI D. WOJCIECHOWSKI, CPA

CONSULTANT
DALLAS C. HENNINGER, CPA

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, 2003 and 2002 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, 2003 and 2002, 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

September 8, 2004

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

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2003	2002
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 2,606,347	\$1,066,685
Ratepayer's Contribution Receivable	260,171	292,833
Grant Receivable	37,842	-
Royalty Receivable	-	7,094
Investments (Note 3)	8,355,053	7,160,876
Program Related Investments, Net (Note 4)	986,853	1,367,005
Office Equipment, Net (Note 5)	17,760	6,090
Prepaid Expense and Deposits	4,958	2,475
Investments - Deferred Compensation Plan (Note 8)	37,867	-
Total Assets	\$12,306,851	\$9,903,058
<u>LIABILITIES:</u>		
Accounts Payable	\$ 58,321	\$ 21,691
Accrued Employee Benefits	7,209	28,957
Deferred Compensation Liability (Note 8)	37,867	-
Total Liabilities	103,397	50,648
<u>NET ASSETS:</u>		
Unrestricted Net Assets	12,203,454	9,852,410
Total Liabilities and Net Assets	\$12,306,851	\$9,903,058

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>2003</u>	<u>2002</u>
<i><u>Revenues and Gains:</u></i>		
PP&L Ratepayers' Contribution (Note 8)	\$ 3,416,050	\$3,252,679
Grant Revenue	37,842	-
Interest Income - Operating and Money Market	23,869	17,715
Investment Return (Note 3)	196,881	(718,680)
Interest-Program Loans	27,026	15,794
Royalties and Dividends	10,714	16,342
Other	<u>2,500</u>	<u>10,125</u>
Total Revenue and Gains	<u>3,714,882</u>	<u>2,593,975</u>
<i><u>Expenses:</u></i>		
Program Services		
Grants Awarded	157,698	73,999
Loss Reserve	687,368	236,250
Operating Expenses	<u>327,658</u>	<u>188,396</u>
	1,172,724	498,645
Management and General	<u>191,114</u>	<u>151,189</u>
Total Expenses	<u>1,363,838</u>	<u>649,834</u>
Increase in Unrestricted Net Assets	2,351,044	1,944,141
Unrestricted Net Assets, Beginning	<u>9,852,410</u>	<u>7,908,269</u>
Unrestricted Net Assets, Ending	<u>\$12,203,454</u>	<u>\$9,852,410</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, 2003

With Comparative Totals for 2002

	Program Services	Management & General	Total	
			2003	2002
Grants Awarded	\$ 157,698	\$ —	\$ 157,698	\$ 73,999
Program Related Investments*				
Loss Allowance	<u>687,368</u>	<u>—</u>	<u>687,368</u>	<u>236,250</u>
Operating Expenses:				
Salaries and Wages	90,165	78,839	169,004	146,226
Fringe Benefits	19,808	17,862	37,670	33,610
Payroll Taxes	7,058	6,365	13,423	12,418
Contract Managers	88,454	10,424	98,878	—
Training and Recruiting	330	297	627	340
Subtotal Staff	<u>205,815</u>	<u>113,787</u>	<u>319,602</u>	<u>192,594</u>
Rent	18,474	9,040	27,514	15,755
Insurance	2,456	1,202	3,658	3,544
Depreciation	3,214	1,572	4,786	3,320
Subtotal Occupancy	<u>24,144</u>	<u>11,814</u>	<u>35,958</u>	<u>22,619</u>
Board Stipends and Expenses	19,168	19,168	38,336	23,467
Dues and Publications	—	1,538	1,538	2,075
Marketing	4,143	7,084	11,227	22,750
Office Supplies	3,052	1,493	4,545	3,022
Wind Value and Education Consulting	9,882	—	9,882	—
Audit	—	9,000	9,000	6,900
Legal	18,546	2,061	20,607	4,373
Due Diligence	17,006	—	17,006	2,635
Organization Design	—	1,602	1,602	13,684
System Support	—	11,636	11,636	16,819
Printing and Postage	2,159	1,056	3,215	4,511
Telephone	4,176	2,044	6,220	5,092
Travel	7,486	3,663	11,149	8,673
MIS Support/Web Hosting	1,786	1,786	3,572	6,328
Director and Officer Insurance	—	2,738	2,738	2,400
Workout Expenses	8,976	—	8,976	—
Miscellaneous	1,319	644	1,963	1,643
Subtotal Other	<u>97,699</u>	<u>65,513</u>	<u>163,212</u>	<u>124,372</u>
Total Operating Expenses	<u>327,658</u>	<u>191,114</u>	<u>518,772</u>	<u>339,585</u>
Totals	<u>\$1,172,724</u>	<u>\$191,114</u>	<u>\$1,363,838</u>	<u>\$ 649,834</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>2003</u>	<u>2002</u>
<i><u>Cash Flows from Operating Activities:</u></i>		
Increase in Net Assets	\$2,351,044	\$1,944,141
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	4,786	3,320
Loss Reserve	687,368	236,250
Net Realized and Unrealized (Gains) Losses on Investments	(45,822)	836,030
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivables	1,914	(31,663)
(Increase) in Prepaid Expense and Deposits	(2,483)	(1,600)
Increase (Decrease) in Account Payable	36,630	(3,398)
Increase in Employee Benefit Liabilities	<u>16,119</u>	<u>10,706</u>
 Net Cash Provided by Operating Activities	 <u>3,049,556</u>	 <u>2,993,786</u>
<i><u>Cash Flows from Investing Activities:</u></i>		
Purchase of Office Equipment and Furniture	(16,456)	-
Net Purchase of Investments	(1,148,356)	(1,470,054)
Additions to Deferred Comp. Plan Investments	(37,867)	-
Increase in Program Related Investments	(355,000)	(1,300,000)
Return of Program Related Investments	<u>47,785</u>	<u>30,912</u>
 Net Cash Used in Investing Activities	 <u>(1,509,894)</u>	 <u>(2,739,142)</u>
 Increase in Cash and Cash Equivalents	 1,539,662	 254,644
 Cash and Cash Equivalents, Beginning of Year	 <u>1,066,685</u>	 <u>812,041</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$2,606,347</u>	 <u>\$1,066,685</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, 2003

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, 2003 and 2002, 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
(A Not-for Profit Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

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
(A Not-for Profit Corporation)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

(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 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.

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:

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

3. Investments (continued)

	2003	2002
U.S. Government Obligations	\$2,006,910	\$1,324,330
Corporate Bonds	526,694	490,638
Equity Securities	5,648,202	5,164,458
Temporary Cash and Money Market	173,247	181,450
	\$8,355,053	\$7,160,876

Investment return is summarized as follows:

Interest and Dividend Income	\$ 199,469	\$ 162,871
Net Realized and Unrealized Gains (Losses) On Investments	45,822	(836,030)
	245,291	(673,159)
Less Investment Advisory and Custodian Fees	(48,410)	(45,521)
Total Investment Return	\$ 196,881	\$ (718,680)

4. Program Related Investments

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

<u>Loans</u>	2003	2002
Powerweb Technologies, Inc. - due in monthly principal repayments of \$1,042 through April 2003, \$3,125 through April 2003 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.	\$459,376	\$480,710

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

4. Program Related Investments (continued)

	<u>2003</u>	<u>2002</u>
<u>Loans (continued)</u>		
Energy Unlimited, Inc. - interest only due monthly at 10%, due February, 2006.	\$ 100,000	\$ 100,000
Community Energy, Inc. - due in monthly installments of \$3,042, including interest at 8%, due December 2006.	111,095	137,545
Community Energy, Inc. - \$250,000 line of credit, interest only due monthly at prime plus 1%, due June, 2004.	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.	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.	104,882	325,000
	<u>1,005,353</u>	<u>1,043,255</u>
Less Loss Reserve	(268,500)	(251,250)
Total Loans, Net	<u>736,853</u>	<u>792,005</u>
<u>Nonmarketable Equity Securities</u>		
250,000 Shares Community Energy, Inc. Series A Preferred	250,000	250,000
124,521 Shares Nova Cruz Products, Inc. Series A Convertible Preferred. Foreclosed in August 2003 written down to estimated fair value	-	325,000
Total Equity Investments	<u>250,000</u>	<u>575,000</u>
Total Program Related Investments	<u>\$ 986,853</u>	<u>\$1,367,005</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

5. Office Equipment

	2003	2002
Furniture	\$ 15,818	\$ 6,904
Computer and Phone Equipment	<u>12,077</u>	<u>4,535</u>
	27,895	11,439
Less Accumulated Depreciation	<u>(10,135)</u>	<u>(5,349)</u>
	<u>\$ 17,760</u>	<u>\$ 6,090</u>

6. 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>	
2004	\$29,604
2005	29,604
2006	7,401

Total rents charged to expense under the leases were \$26,403 and \$15,755 for the years ended June 30, 2003 and 2002, 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 10% of all participants compensation plus 4.3% of compensation in excess of \$33,960 through December 2002 and \$35,120 effective January, 2003, being 40% of the social security taxable wage base in effect on the first day of each Plan year. Total expense was \$19,858 and \$13,720 for the years ended June 30, 2003 and 2002, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

8. 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. At June 30, 2003, total Fund contributions and net investment gain or loss were \$37,867.

9. Line of Credit

The Fund has a \$750,000 Line of Credit with a bank, expiring February 2004. 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, 2003 and 2002.

10. Related Party Transactions

The Organization awarded \$42,125 and \$43,000 of program grants in 2003 and 2002, respectively, to two organizations, each of which has a director who is a board member of the Fund.