

**SUSTAINABLE ENERGY FUND
(A NOT-FOR-PROFIT CORPORATION)**

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Sustainable Energy Fund
(a Not-for-Profit Corporation)
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December 31, 2021 and 2020

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Independent Auditors' Report

To the Board of Directors
Sustainable Energy Fund
Schnecksville, Pennsylvania

Opinion

We have audited the consolidated financial statements of the Sustainable Energy Fund (a not-for-profit corporation) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sustainable Energy Fund and Subsidiary as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sustainable Energy Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sustainable Energy Fund's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Independent Auditors' Report
(Cont'd)

To the Board of Directors
Sustainable Energy Fund

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sustainable Energy Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sustainable Energy Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

J. H. Williams + Co., LLC

May 18, 2022

Sustainable Energy Fund
Consolidated Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,083,245	\$ 538,203
Accounts receivable	879	15,361
Inventory	959	967
Investments (Notes 3 & 4)	12,933,261	6,529,693
Program related loans receivable, net (Note 5)	3,293,629	9,487,769
Investment in National Energy Improvement Fund, LLC (Note 6)	41,713	150,844
Property, plant and equipment, net (Note 7)	7,033,199	7,323,200
Prepaid expense and deposits	<u>47,795</u>	<u>39,670</u>
	<u>\$ 24,434,680</u>	<u>\$ 24,085,707</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 28,355	\$ 112,999
Accrued expense and deferred revenue	11,390	50,076
Accrued salary and benefits	64,574	53,768
Deferred ESA income	286,251	272,084
Mortgage loan payable	<u>3,822,409</u>	<u>3,925,081</u>
TOTAL LIABILITIES	4,212,979	4,414,008
 NET ASSETS		
Net assets without donor restrictions	<u>20,221,701</u>	<u>19,671,699</u>
	<u>\$ 24,434,680</u>	<u>\$ 24,085,707</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Activities
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES AND GAINS		
Grant revenue	\$ 155,392	\$ 107,500
Project revenue	-	200
Interest income - operating and money market	732	2,438
Investment return, net	409,521	512,136
Equity in (loss) of investee	(109,131)	(123,918)
Interest - program loans	600,608	386,864
Other income - program loans	75,025	41,589
ESA income	168,813	154,332
C-PACE income	43,978	75,000
Alternative compliance payments	692,702	-
Education programs revenue	19,665	394
Donation income	18,095	20,000
Miscellaneous revenue	<u>1,900</u>	<u>-</u>
TOTAL REVENUES AND GAINS	<u>2,077,300</u>	<u>1,176,535</u>
EXPENSES		
Program services:		
Provision for loan losses (recoveries)	(148,271)	58,836
Provision for bad debts (recoveries)	-	1,060
Operating expenses	<u>1,007,427</u>	<u>1,131,230</u>
	859,156	1,191,126
Management and general	<u>668,142</u>	<u>617,270</u>
TOTAL EXPENSES	1,527,298	1,808,396
Loss on disposal of assets	<u>-</u>	<u>286</u>
TOTAL EXPENSES AND LOSSES	<u>1,527,298</u>	<u>1,808,682</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	550,002	(632,147)
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING	<u>19,671,699</u>	<u>20,303,846</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, ENDING	<u>\$ 20,221,701</u>	<u>\$ 19,671,699</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Functional Expenses
For the year ended December 31, 2021

	Program Services	Management and General	Total
Program related investments:			
Loan loss provision (recovery)	\$ (148,271)	\$ -	\$ (148,271)
Operating Expenses:			
Salaries and wages	462,722	134,008	596,730
Fringe benefits	86,594	61,766	148,360
Payroll taxes / fees	39,987	13,624	53,611
Training	6,563	7,316	13,879
Recruiting	1,198	1,197	2,395
	<u>597,064</u>	<u>217,911</u>	<u>814,975</u>
Property taxes	-	21,745	21,745
Building maintenance	-	55,652	55,652
Property insurance	-	7,869	7,869
	<u>-</u>	<u>85,266</u>	<u>85,266</u>
Board stipends	-	600	600
Board expense	-	2,231	2,231
Dues and publications	7,068	1,767	8,835
Depreciation	177,407	152,044	329,451
Interest expense	-	139,989	139,989
Marketing	78,945	8,824	87,769
Office supplies	17,106	4,276	21,382
Audit	-	15,850	15,850
Legal	33,238	5,296	38,534
Due diligence	1,816	-	1,816
Financial programs	20,596	-	20,596
Education programs	16,646	-	16,646
Financial system support	-	9,497	9,497
Contractual services	-	575	575
Printing and postage	4,113	1,180	5,293
Records storage & management	-	2,488	2,488
Telephone	16,002	4,001	20,003
Travel	6,541	1,943	8,484
MIS support / web hosting	27,678	9,226	36,904
Liability insurance	3,207	3,666	6,873
Miscellaneous	-	1,512	1,512
	<u>410,363</u>	<u>364,965</u>	<u>775,328</u>
TOTAL OPERATING EXPENSES	<u>1,007,427</u>	<u>668,142</u>	<u>1,675,569</u>
TOTALS	<u>\$ 859,156</u>	<u>\$ 668,142</u>	<u>\$ 1,527,298</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Functional Expenses
For the year ended December 31, 2020

	Program Services	Management and General	Total
Program related investments:			
Loan loss provision (recovery)	\$ 58,836	\$ -	\$ 58,836
Bad debt expense	1,060	-	1,060
Operating Expenses:			
Salaries and wages	519,491	112,148	631,639
Fringe benefits	86,047	59,155	145,202
Payroll taxes / fees	40,527	12,315	52,842
Training	8,639	10,110	18,749
Recruiting	1,136	-	1,136
	<u>655,840</u>	<u>193,728</u>	<u>849,568</u>
Rent	29,256	6,847	36,103
Property taxes	482	16,848	17,330
Office move	-	695	695
Building maintenance	-	31,750	31,750
Property insurance	2,911	8,844	11,755
	<u>32,649</u>	<u>64,984</u>	<u>97,633</u>
Board expense	-	587	587
Director recruitment	-	2,747	2,747
Dues and publications	7,284	1,821	9,105
Depreciation	167,572	137,048	304,620
Interest expense	-	123,897	123,897
Marketing	36,875	23,097	59,972
Office supplies	17,538	4,385	21,923
Audit	-	15,875	15,875
Legal	80,361	11,421	91,782
Due diligence	1,841	-	1,841
Financial programs	68,478	-	68,478
Financial system support	-	8,241	8,241
Contractual services	9,050	-	9,050
Printing and postage	1,313	496	1,809
Records storage & management	-	2,342	2,342
Telephone	21,250	5,312	26,562
Travel	10,472	849	11,321
MIS support / web hosting	13,718	4,573	18,291
Liability insurance	5,967	6,906	12,873
Income taxes	-	109	109
Miscellaneous	1,022	8,852	9,874
	<u>442,741</u>	<u>358,558</u>	<u>801,299</u>
TOTAL OPERATING EXPENSES	<u>1,131,230</u>	<u>617,270</u>	<u>1,748,500</u>
TOTALS	<u>\$ 1,191,126</u>	<u>\$ 617,270</u>	<u>\$ 1,808,396</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 550,002	\$ (632,147)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	329,451	304,620
Provision for loan losses (recoveries)	(148,271)	58,836
Provision for bad debts (recoveries)	-	1,060
Loss on disposal of assets	-	286
Net realized and unrealized (gains) losses on investments	(326,111)	(385,954)
Equity in loss of investee	109,131	123,918
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	14,482	(14,103)
Prepaid expenses and deposits	(8,125)	(8,993)
Inventory	8	1,398
Accounts payable	(84,644)	(14,930)
Accrued expenses and deferred revenue	(38,686)	19,311
Accrued salaries and benefits	10,806	(910)
Deferred ESA income	14,167	(25,833)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>422,210</u>	<u>(573,441)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(39,450)	(1,241,954)
Net (purchase) sale of investments	(6,077,457)	2,570,583
Issuance of program related loans receivable	(3,421,934)	(9,878,556)
Repayments of program related loans receivable	9,764,345	7,193,278
Proceeds - sale of property, plant and equipment	-	445
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>225,504</u>	<u>(1,356,204)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	2,359,230
Principal payments on long-term debt	(102,672)	(74,919)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(102,672)</u>	<u>2,284,311</u>
INCREASE IN CASH AND CASH EQUIVALENTS	545,042	354,666
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	538,203	183,537
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,083,245</u>	<u>\$ 538,203</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	\$ -	\$ 109
Interest	139,989	130,824
Noncash investing and financing activities:		
Property, plant, and equipment funded through accounts payable	-	71,860
Payoff of line of credit through issuance of long-term debt	-	1,640,770

See accompanying notes to financial statements.

Sustainable Energy Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

NOTE 1 – Nature of Organization

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund (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.

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. Green Connexions, Inc. owns a 100% interest in Sustainable Energy Systems, LLC.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Fund have been prepared on the accrual basis of accounting, except for interest income from loans receivable, which is reported on the cash basis and is not materially different than if they were reported on the accrual basis.

Basis of Presentation

The Fund has presented its financial statements in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Under this guidance, a description of the two net asset categories follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.

Sustainable Energy Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Net Assets with Donor Restrictions – Net assets whose use by the Fund is subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that expire by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained permanently by the Fund. Donor-imposed restrictions are released when a restriction expires, such as when the stipulated time has elapsed or when the stipulated purposes for which the resource was restricted have been fulfilled. The Fund does not have any net assets with donor restrictions.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2014-09, *Revenues from Contracts with Customers* (Topic 606). The new revenue recognition guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires an entity to follow a five-step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfied a performance obligation. The Fund's revenue recognition policies for its major programs are as follows:

Program Loans

The Fund offers loans to customers to assist in financing improvements that reduce the consumption of energy from non-sustainable resources. Interest earned on program loans is recognized as revenue on the date it is received. Loan processing fees are recognized as revenue on a monthly basis over the term of the loan. The Fund believes that its performance obligation is satisfied on an ongoing basis throughout the term of each loan.

Energy Savings Agreements

The Fund enters into various energy savings agreements with energy users whereby the Fund pays for the cost of energy efficient improvements at the energy user's facility while acquiring and maintaining title to and ownership of the improvements. Thereafter, the Fund provides services to monitor and measure the energy savings related to said improvements. In return, the energy user pays the Fund a fee based on the estimated energy savings of the improvements. These fees are recognized as revenue on a monthly basis over the term of the agreement. The Fund believes that its performance obligation is satisfied on an ongoing basis throughout the term of each agreement.

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Notes to Consolidated Financial Statements

December 31, 2021 and 2020

The issuance of ASU No. 2014-09 did not have a significant impact on the Fund's financial statements. Based on the Company's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the issuance.

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 when purchased to be cash equivalents.

Donated Services

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. 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 net assets without donor restrictions unless the income or loss is restricted by donor or law.

Program Related Investments

Loans

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

Sustainable Energy Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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.

Investment in National Energy Improvement Fund, LLC

The investment is being accounted for under the equity method, which provides that the initial purchase be recorded at cost, then reduced by dividends and increased or decreased by the Fund's proportionate share of the investee's net earnings or loss.

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 Pennsylvania and dedicated to the use of renewable energy, clean energy technology, energy efficiency, energy conservation, and education. 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.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets of three to forty years and computed on straight-line and accelerated methods.

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Notes to Consolidated Financial Statements

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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.

Allocation of Functional Expenses

The financial statements report certain categories of expenses that are attributable to both program services and management and general activities of the Fund. These expenses require allocation on a reasonable basis that is consistently applied. Salaries and benefits are allocated on the basis of management's estimate of time, while occupancy and office expenses are allocated on the basis of management's estimate of consumption.

Advertising Costs

Advertising costs are expensed as incurred.

Financial Reporting

In February 2016, the FASB issued *Accounting Standards Update 2016-02, Leases (Topic 842)*. This Standard provides guidance for increasing transparency and comparability among entities by recording lease assets and liabilities on the statement of financial position and disclosing certain key information about leasing arrangements. The provisions of this Standard are effective for reporting periods beginning after December 15, 2021. Management has not yet determined the impact this Standard has on the financial statements.

In October 2020, the FASB issued *Accounting Standards Update 2020-10, Codifications Improvements*. This update provides changes to the clarity of the original Codification or corrects unintended applications of guidance that are not expected to have a significant effect on current accounting practice. The provisions of this update are effective for reporting periods beginning after December 15, 2021. Management has not yet determined the impact this update has on the financial statements.

NOTE 3 – Fair Values of Financial Instruments

The Fund adopted FASB ASC 820-10 Fair Value Measurements and Disclosures, as it pertains to its financial assets and liabilities. FASB ASC 820-10 defines fair market value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on assumptions that market participants would use, including a consideration of non-performance risk.

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Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Management assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets at Fair Value as of December 31, 2021				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash management funds	\$ 6,422,077	\$ -	\$ -	\$ 6,422,077
U.S. Government obligations	2,027,338	-	-	2,027,338
Corporate bonds	441,520	-	-	441,520
Municipal bonds	1,077,516	-	-	1,077,516
Equity securities	2,612,976	-	-	2,612,976
Certificates of deposit	351,834	-	-	351,834
TOTAL ASSETS AT FAIR VALUE	\$ 12,933,261	\$ -	\$ -	\$ 12,933,261

Assets at Fair Value as of December 31, 2020				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash management funds	\$ 119,592	\$ -	\$ -	\$ 119,592
U.S. Government obligations	2,448,273	-	-	2,448,273
Corporate bonds	285,165	-	-	285,165
Municipal bonds	840,877	-	-	840,877
Equity securities	2,480,948	-	-	2,480,948
Certificates of deposit	354,838	-	-	354,838
TOTAL ASSETS AT FAIR VALUE	\$ 6,529,693	\$ -	\$ -	\$ 6,529,693

Sustainable Energy Fund
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December 31, 2021 and 2020

The estimated fair values of investments classified as Level 1 are derived from quoted market prices in active markets. The estimated fair values of investments classified as Level 2 are derived from the quoted market price at the time the investments were last traded adjusted for management's estimate of potential impairment as a result of less than favorable factors arising during the current year. The above valuation techniques for both Level 1 and Level 2 investments have been consistently applied from prior years.

NOTE 4 – 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 December 31 are comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash management funds	\$ 6,422,077	\$ 119,592
U.S. Government obligations	2,027,338	2,448,273
Corporate bonds	441,520	285,165
Municipal bonds	1,077,516	840,877
Equity securities	2,612,976	2,480,948
Certificates of deposit	351,834	354,838
	<u>\$ 12,933,261</u>	<u>\$ 6,529,693</u>

Investment return is summarized as follows:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 127,651	\$ 180,762
Net realized and unrealized gains (losses) on investments	<u>326,111</u>	<u>385,954</u>
	453,762	566,716
Less: Investment advisory and custodian fees	<u>(44,241)</u>	<u>(54,580)</u>
TOTAL INVESTMENT RETURN	<u>\$ 409,521</u>	<u>\$ 512,136</u>

Sustainable Energy Fund
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

NOTE 5 – Program Related Investments / Loans Receivable

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

	<u>2021</u>	<u>2020</u>
Loans:		
Londonderry School - refinanced in May 2016 - due in monthly installments of \$2,525, including interest at 6.25%, based on a 173 month amortization schedule, balloon payment due June 2021.	\$ -	\$ 225,434
Forest City School District - due in monthly installments of \$1,470 including interest at 2%, due June 2021.	-	8,776
Indian Springs Sawmill - due in monthly installments of \$1,456 including interest at 4.00%, due May 2021.	-	7,201
Chandler Hall - due in monthly installments of \$1,979 including interest at 6.25% less a monthly servicing fee, due October 2022.	167,001	179,788
Pitcairn Building - due in monthly installments of \$542 including interest at 4.00% less a monthly servicing fee, due October 2022.	36,135	41,051
Maplewood Virginia, LLP - due in monthly installments of \$1,737 including interest at 6.50% less a monthly servicing fee, due February 2023.	160,424	170,419
The Racquet Club of Philadelphia - due in monthly installments of \$1,152 including interest at 6.50% less a monthly servicing fee, due February 2023.	100,460	107,451
Leading Age - due in monthly installments of \$680 including interest at 6.50% less a monthly servicing fee, due February 2023.	58,644	62,819
Cast Iron Building - due in monthly installments of \$777 including interest at 6.64% less a monthly servicing fee, due January 2024.	56,394	61,782
Kobernick Anchin - due in monthly installments of \$6,029 including interest at 6.64% less a monthly servicing fee, due January 2024.	294,066	345,042

Sustainable Energy Fund
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	<u>2021</u>	<u>2020</u>
Forest Hills PPA, LLC - due in monthly installments of \$1,825 including interest at 5.25%, due December 2024..	236,785	245,995
Gardner's Mattress & More - due in monthly installments of \$224 including interest at 5.00%, due July 2022.	1,322	3,870
Pike County Public Library - due in monthly installments of \$509 including interest at 4.00%, due August 2023.	9,840	15,437
Ursinus College - due in monthly installments principal and interest payments of 4.00% on outstanding principal balance, due December 2024.	1,077,068	1,189,088
SolarSense PA II PSU, LLC - due in monthly installments of \$7,397 including interest at 4.00%, with a balloon payment due December 2025.	849,413	903,030
Ultimate Car Wash and Lube, LLC - due in monthly installments of \$248 including interest at 6.00%, due May 2023.	3,804	6,679
CIMA Network, Inc. - due in monthly installments of \$685 including interest at 5.50%, due September 2024.	20,942	27,807
Mr. Wizard Car Wash, LLC - due in monthly installments of \$1,859 including interest at 6.50%, due September 2024.	54,476	74,054
Tropical Stone, LLC - due in monthly installments of \$879 including interest at 4.50%, due January 2025.	30,325	39,288
Community Energy Solar, LLC - 18 monthly interest only payments at 6.50% on outstanding principal, balloon payment due September 2021.	-	4,832,000
Community Energy Solar, LLC - 29 monthly interest only payments at 6.50% on outstanding principal, balloon payment due April 2023.	-	1,209,204
Berry Long Memorial Church - due in monthly installments of \$402 including interest at 4.49%, due April 2026.	17,828	-
Wendy J. Kauffman - due in monthly installments of \$386 including interest at 4.49%, due April 2025.	12,621	-

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	<u>2021</u>	<u>2020</u>
Refuge For The Perishing Holy Temple - due in monthly installments of \$354 including interest at 4.49%, due July 2026.	16,479	-
SAISAKTHI LLC - due in monthly installments of \$193 including interest at 4.49%, due July 2025.	7,133	-
Lenape Real Estate Partners, LLC - due in monthly installments \$865 including interest at 1.00%, due October 2031.	97,135	-
Ceramic Pro Auto Spa, LLC - due in monthly installments of \$214 including interest at 4.49%, due November 2026.	10,659	-
Heimar Properties, LLC - due in monthly installments of \$458 including interest at 1.00%, due December 2041.	30,350	-
Bennett Alexander Group - due in monthly installments of \$1,103 including interest at 1.00%, due December 2026.	<u>64,500</u>	<u>-</u>
	3,413,804	9,756,215
Less: Allowance for Loan Losses	<u>(120,175)</u>	<u>(268,446)</u>
TOTAL LOANS	<u>\$ 3,293,629</u>	<u>\$ 9,487,769</u>

Activity in the allowance for loan losses for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Balance, January 1	\$ 268,446	\$ 209,610
Provision charged to program activities	-	58,836
Loans charged off	-	-
Recoveries	<u>(148,271)</u>	<u>-</u>
Balance, December 31	<u>\$ 120,175</u>	<u>\$ 268,446</u>

Sustainable Energy Fund
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The Fund utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns a risk factor to all loans. The risk factor is assigned using the guidance provided in the Fund's loan policy. The risk factors to be assigned to each loan are based on a combination of the borrower's payment history, the borrower's financial condition, and the current life of the loan. The Fund assigns a higher risk factor to new loans issued because it has not yet established a loan history with the borrower; once a loan history has been established, then the risk factor is further adjusted for that loan. Additionally, as the Fund obtains a history of payments from the borrowers, a risk factor is assigned based on their current paying status. Borrowers maintaining a current payment status are assigned a lower risk factor; those that do not maintain a current payment status generally are assigned a higher risk factor. The Fund also reviews the financial condition of each borrower, assigning higher risk factors to those borrowers where it has concerns over the borrower's financial condition. There were no changes to the Fund's methodology for assigning risk factors to its loan portfolio.

NOTE 6 – Investment in National Energy Improvement Fund, LLC

During 2018, the Fund acquired a 10% interest in National Energy Improvement Fund, LLC, which originates loans for energy-efficient home improvements, provides servicing on loans, and provides access to financing for commercial energy improvements. During 2019, the Fund sold back 1% of its interest, and retained a 9.99% interest. The remaining interest in National Energy Improvement Fund, LLC is owned by other unaffiliated entities. The investee operates on a fiscal year ending December 31st.

The following summarizes activity in the Fund's investment for the year ended December 31:

	<u>2021</u>	<u>2020</u>
Balance, January 1	\$ 150,844	\$ 274,762
Investment acquired (disposed) during the year	-	-
Equity in investee's net (loss) for the year ended December 31	<u>(109,131)</u>	<u>(123,918)</u>
Balance, December 31	<u>\$ 41,713</u>	<u>\$ 150,844</u>

Sustainable Energy Fund
Notes to Consolidated Financial Statements
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NOTE 7 – Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 625,223	\$ 625,223
Net Zero building	5,605,823	5,605,823
Furniture	13,971	13,971
Office equipment	326,933	287,484
NESA equipment	1,514,643	1,514,642
SES equipment	<u>83,767</u>	<u>83,767</u>
	8,170,360	8,130,910
Less: Accumulated depreciation	<u>(1,137,161)</u>	<u>(807,710)</u>
	<u>\$ 7,033,199</u>	<u>\$ 7,323,200</u>

Depreciation expense amounted to \$329,451 and \$304,620 for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 – Long Term Debt

During 2019, the Fund entered into a \$182,083 letter of credit agreement with a local financial institution. A certificate of deposit in the amount of \$200,000 has been pledged as collateral for the letter of credit. The letter of credit bears interest at 3 percentage points over the prime interest rate (6.25% at December 31, 2021). Interest payments on the outstanding balance are due monthly, with payment of all outstanding principal due on demand. There was no outstanding balance on this letter of credit at December 31, 2021 or 2020.

During 2019, the Fund entered into a \$2,000,000 line of credit agreement with a local financial institution. In February 2020, the Fund executed a commercial mortgage in the amount of \$4 million to provide permanent financing for the Net Zero building as well as pay off the outstanding balance on the line of credit. The mortgage is secured by a lien on the Net Zero building with a book value of \$5,963,931 at December 31, 2021, assignment of rents and leases on the Net Zero building, and an assignment of a portion of the Fund's investment portfolio with a reported fair market value in the amount of \$3,064,362. The mortgage bears interest at a fixed rate of 3.56%. The Fund also entered into an interest rate swap agreement with regards to this mortgage. The swap agreement provides for a monthly settlement between the Fund and the financial institution based on the 30-day London Interbank Offered Rate (LIBOR) plus 210 basis points. Loan terms provide for monthly principal payments in amounts ranging from \$8,324 to \$13,795 plus accrued interest through February 2035 at which time any unpaid principal and accrued interest become due.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
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Principal maturities of long-term debt as of December 31, 2021 are as follows:

2022	\$	106,483
2023		110,167
2024		114,435
2025		118,772
2026		123,181
Thereafter		<u>3,249,371</u>
	\$	<u>3,822,409</u>

NOTE 9 – Paycheck Protection Program Loan

In January 2021, the Fund received loan proceeds in the amount of \$155,392 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying entities for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the program.

The Fund has adopted FASB *Accounting Standards Codification* 958-605-55 and, in accordance with the ASC, the PPP proceeds were recognized and treated as a conditional contribution. The Fund determined, as of December 31, 2021, that all conditions for forgiveness of the loan had been met. Since the conditional contribution terms were met in the same period the contribution was received, the Fund has recognized the contribution in the Statement of Activities as an increase in net assets without donor restrictions.

On November 4, 2021, the loan was forgiven for the entirety of the principal and accrued interest.

NOTE 10 – 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 Plan is a “safe harbor” 401(k) Plan in which the Fund makes a non-elective contribution to the Plan each year equal to 3% of all participants’ compensation. In addition, the Fund elected to make a discretionary contribution of up to 1.5% of qualifying salaries for the years ended December 31, 2021 and 2020. Total employer contributions amounted to \$23,894 and \$26,144 for the years ended December 31, 2021 and 2020, respectively, and are reported as part of employee benefits in the statement of functional expenses.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
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NOTE 11 – Concentration of Credit Risk

The Fund maintains cash balances at various financial institutions in Allentown, Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 in the aggregate. The Fund's cash balances on deposit, per bank records, in excess of insured limits totaled \$863,555 and \$218,661 at December 31, 2021 and 2020, respectively.

NOTE 12 – Income Taxes

As discussed in Note 1, these consolidated financial statements include the accounts of PP&L Sustainable Energy Fund, a non-profit corporation, and Green Connexions, Inc., a for-profit wholly owned subsidiary. Each of the entities files separate tax returns with the various governmental agencies.

PP&L Sustainable Energy Fund is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Code as other than a private foundation. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2018, 2019, and 2020 are still subject to examination by the IRS, generally for three years after they were filed.

Green Connexions, Inc. was incorporated as a C corporation and files Form 1120, U.S. Corporate Income Tax Return. As of December 31, 2021, there is a net operating loss carryforward available of \$376,925. The years ending December 31, 2018, 2019, and 2020 are still subject to examination. Sustainable Energy Systems LLC, which is fully owned by Green Connexions, Inc., incurred a state income tax expense of \$0 in 2021 and \$109 in 2020.

NOTE 13 – Contingencies

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of many entities that have obtained financing through the Fund. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and the ability of loan recipients to meet their repayment obligations in a timely manner. Therefore, the Fund expects this matter to negatively impact its operating results. The related financial impact and duration cannot be reasonably estimated at this time; however, the Fund has experienced a negative impact on its operating results because of its inability to lease its Net Zero building to third parties.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
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NOTE 14 – Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet, comprise the following at December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,083,245	\$ 538,203
Investments	<u>9,668,899</u>	<u>3,228,803</u>
	<u>\$ 10,752,144</u>	<u>\$ 3,767,006</u>

In addition to financial assets available to meet general expenditures over the year, the Fund operates within a financial budget that anticipates covering its general expenditures by generating revenues through its program loans, Energy Savings Agreements, and education programs.

NOTE 15 – Subsequent Events

The Fund has evaluated subsequent events through May 18, 2022, the date on which the financial statements were available to be issued.