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, 2001 – June 30, 2002

October 8, 2002

Sustainable Energy Fund
The Sovereign Building
609 Hamilton Street
Allentown, PA 18101
610-740-3182
610-740-9511 Fax
ppltsef@aol.com
www.sustainableenergyfund.org

Thomas J. Tuffey, Ph.D.
Executive Director

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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

This is The Sustainable Energy Fund of Central Eastern Pennsylvania's (SEF) second annual report to the Pennsylvania Public Utility Commission and to the joint petitioners in the PPL Utilities restructuring proceeding, (Docket # R-0093954). It discusses the progress that the SEF has made in the period from July 1, 2001 through June 30, 2002.

The SEF received a "clean opinion letter", from the independent auditors last year, our first in operation, with no significant recommendations to management. This was a major milestone that allowed us to move beyond the formative stage into full operations, although still in early stage. By the end of year two, we had committed to a two year total of $3,525,000 in program related investments and $422,922 in grants. We believe that the impact of these investments in support of mission is exceptional. Through our investments, we have been able to:

- Significantly advance the leadership of Pennsylvania in wind powered electric generation.
- Bring software and devices to market to better manage electric load in both routine and crisis times.
- Advance the adoption of Green Building practices, and
- Recruit a new electric vehicle, "The Voloci", manufacturing facility to the territory, along with quality jobs.

We are very satisfied with our contribution, thus far, to building a new sustainable energy environment within the PPL Territory and the Commonwealth of Pennsylvania.

We also understand there is much more to do. Our balance sheet, position in the market of developing, sustainable energy technologies and businesses, and capabilities remain strong.

As we enter our third year, we are preparing to expand our capabilities and market influence as reported in section 4.0, Next Steps. We believe we are well positioned to have a major influence on developing a new, sustainable energy environment.

2.0 ACCOMPLISHMENTS

Some of this period's accomplishments follow:

2.1 Program Related Investments and Grants

During the year, our market development activities began to yield fruit. We received close to 200 inquiries and/or financing requests. We were able to achieve a significant increase in both the quantity and quality of our "pipeline"; although we do note it was substantially impacted mid year by both the events of 9-11, a recession, and a significant decrease in the business confidence to start new ventures. Each financing request was reviewed by staff against the Board approved investment criteria, as available in our Annual Plan and on the web site at www.sustainableenergyfund.org. The status of all inquiries and request are reported to the Board quarterly.

Those 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 recommendation to the full Board. Final decision on all Grants and Program Related Investments is made by the Board, either at quarterly meetings or via special session.

During the period, the Board of Directors made the following commitments, totaling $1,569,922.

- ***Grants $269,922***
  - $50,000 to Green Building Association of Central PA to support the operation of a non-profit organization dedicated to provide education and market development on Green Building.
  - $17,500 to EFMR Monitoring Group to develop a dedicated wind educational curriculum for grammar, elementary, and high schools.
  - $75,000 to HersheyPark, (a joint venture with the PA Department of Environmental Protection), to purchase a 10kw wind turbine, 2 kw solar photovoltaic, and one or two "Voloci" 50cc motorbikes for installation at the park for educational/informational purpose.
  - $5,922 to Clean Energy Funds Network to help fund four joint projects among the CEFN members, they are: Public Education, Fuel Cells, Solar Photovoltaic, and Green Tags.
  - $1,500 to Community Energy, Inc. to encourage local school children in the Somerset area to participate in the dedication ceremony of the Exelon-Community Energy Wind Farm dedication.
  - $10,000 to Clean Energy Fund Network for general operational support in their multi-state effort to provide coordination and synergy to the various Clean Energy Funds.

- $25,000 to St. Stephens Episcopal School, Harrisburg to support their efforts to convert an adjacent building to classroom facilities with a green building association LEED Silver rating.
- $10,000 Executive Director discretionary fund to be utilized for sponsorships as they arise.
- $14,000 to Souderton Area School District (SAVE Organization) to expand their current program of demonstrating energy application to their environmental demonstration and to design an education CD Rom; for distribution throughout the school districts within the Commonwealth.
- $2,000 to support Penn Future's Renewable Energy Conference.
- $2,000 to Wildland's Conservancy for consulting services for green building.
- $2,000 to Community Action of Lehigh Valley for consulting services for green building for their new facility.
- $75,000 (over a 2 ½ year period, three phases, $25,000 increments) to Pine Street Housing Project, Luzerne County for an energy efficient housing project for low income.
- Up to $5,000 to Moravian Book Store to have an energy audit prepared on their historic building in the City of Bethlehem.

- ***Program Related Investments $1,300,000***
  - $325,000 Loan to Nova Cruz to establish a manufacturing facility in Scranton, for an electric 50cc motorbike (subordinated debt with royalty payback).
  - $325,000 Equity to Nova Cruz (preferred shares)
  - $250,000 Equity to Community Energy for wind projects and marketing wind energy
  - $400,000 Loan to F.L. Smidth for energy efficiency/conservation for their headquarters building

There is a lag time between Board Commitments and cash disbursements as the legal documents are drafted and further negotiations are conducted. Additionally, a recipient may choose to cancel/delay a project or finance it through other channels.

Funds disbursed for Program Related Investments and Grants in the year-ended June 30, 2002 totaled $978,922.

From last years commitments, Masonic Homes ($300,000 Loan) chose longer term Bond Financing and AFC First Financial, ($25,000 Loan) chose self-financing.

As the year completed, we saw the start of a return to investor confidence and an increase in PRI activity. We do believe our "pipeline" will continue to be impacted by external events and are hopeful that we are entering a more stable period.

2.2 Operation

Several areas of SEF operations were enhanced during the year. They include SEF actions as below:

- Developed and opened its website at: www.sustainableenergyfund.org
- Conducted pilot operations for regional marketing outreach programs.
- Organized and hosted the second annual PA Sustainable Energy fund Partners Retreat and three quarterly meetings of the regional funds. SEF was nationally active through its involvement in the Clean Energy Funds Network.
- Initiated our first market development report "Pennsylvania Wind Power: The Value Proposition"
- The Board approved a new Business Plan as reported under Section 4: Next Steps.

2.3 Governance

Within Pennsylvania, there are four regional "Clean Energy Funds", each created by PUC order as a result of deregulation settlements for specific electric utilities, and their respective territories. The Boards of Directors 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. This is proving to be a very effective means to accomplish mission. However, it does place a greater burden of involvement on our Directors.

Our Directors are active participants in the marketplace for developing sustainable energy; this is of great advantage to us. However, it also causes us to assure not only the prudence and proprietary of our deals, but also any perceptions thereof. Our Directors may source us deals; may be competitors to those applying for financing; participate in organizations receiving grants', some provide contract work to the SEF; and some, in accordance with our policy for stipends, receive stipend support to underwrite their involvement.

To further assure propriety and the perception thereof, during this year the Board extended our current Director disclosure practices to include:

- An expanded Conflict of Interest Policy
- Assured involvement of our Legal Council in all SEF matters involving Directors
- Instructed our Auditors to carefully audit all such dealings
- Developed a Policy and practice for recruitment and selection of new Board Members

During the year, Mr. Arthur Morris filled the open seat on the board. Mr. Morris is the previous Mayor of Lancaster, actively involved in the Pennsylvania League of Cities, and is in the energy aggregation business. The SEF is very grateful to add his level of expertise and influence.

Ms. Karen O'Neill has fulfilled her term of service and, because of logistical/travel issues, chose not to seek a second term. We are very grateful for her many contributions and wish her well in all endeavors. As of year-end, the Director Selection Committee of the Board was actively interviewing candidates to fill this seat.

3.0 FINANCIAL REPORTS

The SEF completed its second full year of operations with close to $10 million in net assets and an additional $8 million in projected ratepayer income through 2004. We are essentially on our Five Year Plan and consider ourselves financially healthy. Assuming continued ratepayer funding beyond 2004, to end of year 2010, we are confident that we can achieve "evergreen" status, the ability to self fund thereafter.

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

31. Income

<u>PPL Ratepayers</u>

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 $3,252,679.00.

Royalties and Interest Payments from Program Related Investments

We are a non-profit foundation organized in accordance with section 501c3 of the IRS code. As such, our program related investments are focused on our charitable mission, to assist 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 to favor early returns so that we may "recycle" funds to other worthy applicants. Hence, we structure a transaction to favor short term returns over long term; 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 as they are in early stage. 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.

During the subject year, our royalty payments received were $16,342.00, and our interest payments received were $15,794.00. All program related investments were current at the end of the reporting year.

Grants

We received one $10,000 grant from the Pennsylvania Environmental Council to offset our costs for organizing and hosting the Pennsylvania Sustainable Energy Funds Annual Partners Retreat.

We also acknowledge and appreciate PPL's contribution of its Lake Wallenpaupak Lodge, and the many services and accommodations to support that event.

As of year-end, we had several grant requests and proposals in to various Foundations and the Pennsylvania Department of Environmental Protection.

Leveraging the Funds of Others

Our intent is to "jump-start" the market place development of sustainable energy within the PPL Territory and the Commonwealth. Two key objectives include leveraging additional, external funds into projects, hence mission, and to reduce project hurdles so that a project with marginal financial returns is in fact approved, our stated objective is to push "*but for us"* projects.

In these areas, it is difficult to generate our market impact, but we understand its importance and continue to invest time and effort in areas that our involvement,

often our willingness to finance, provides the needed confidence to decision makers to proceed, although they may choose other financing. Since our loan terms are deliberately short, those with access to long term, often public bond financing, are likely to go that route. This was the case for Masonic Homes, as reported in Section 2.1. We worked with two school districts, which were considering green Building projects, where we believe our willingness to finance loans to cover up front 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. In some cases, we are directly involved in the process of recruiting those funds. During this period, these included:

- Nova Cruz
  - $450,000 Grant from DCED
  - $850,000 Loan commitment from DCED
  - $150,000 Scranton Economic Development Loans
  - $100,000 Private “Angel” equity; more in pipeline

- Community Energy
  - SEF sponsorship assisted in recruiting grants and performance contracts from several state Clean Energy Funds particularly $1,000,000 from NY

3.2 Asset Management

For portfolio planning purposes, our “assets” fall into four categories, they are:

- 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 act like 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; and
- An investment portfolio of marketable debt and equity securities, managed by two professional investment managers.

The investment portfolio category is typically about 35% of our total, planning portfolio; it is allocated 75% equity and 25% to fixed rate securities. This allocation model is as developed in our Investment Policy. Performance and

policy are formally reviewed annually by the Board during the Asset Managers reports, reviewed quarterly at the Board Meetings and modified as necessary.

The public equity markets, over the past two years, have suffered the most serious decline in the last several decades. Like many, the SEF portfolio was impacted by the general market declines. During the reporting period, our investment portfolio depreciated in value by $715,976, or 10%. For reference purposes, the S&P index during the same period fell 22 %.

The SEF did complete the year with an especially strong cash reserve, in recognition of the uncertainties in the securities markets.

The combination of a strong cash position, monthly income from the ratepayers, and an untapped line of credit at First Union Bank of $750,000.00 are deemed adequate to meet our currently planned operating costs and Program Related Investments. Our current five year financial forecasts recognize actual portfolio performance to date, and project future market returns at an 8% annual rate.

During the year, at various times, we moved $1,350,000 into the investment portfolio. At period end, invested securities are valued at: $7,160,875.96.

3.3 Operating Expenses

At the October 2001 Annual Meeting, the SEF Board approved a preliminary annual budget of $325,000 for the year-ended June 30, 2002. At the January meeting, upon review of the marketing plan, including a more extended web site development and regional contact program, the Board approved an additional $26,000 or a total revised annual budget of $351,059. Actual operating expenses for the period were $339,585, approximately 4% under budget.

3.4 Program Related Investments

As reported in section in section 2.1, during the year the SEF made Program Related Investment Commitments of $1,569,922.

3.5 Health of Balance Sheet

The SEF completed the year with Net Assets of $9,852,410. We continue to operate on plan, as originally forecast in our January 2001 Five Year Plan.

At the end of the year, cash and equivalents, and accrued PPL income totaled $1,359,518.

Total liabilities were $50,648.

4.0 NEXT STEPS

Upon completion of our second year of operation, The SEF Board was pleased with the capabilities and accomplishments of the organization, as well as its understanding of and position in the marketplace. Accordingly it has instructed staff to expand operations, add new functions and objectives, and has approved a budget to finance the same. The approved total budget is $622,313.

This budgeted increase recognizes the Board judgment that the SEF has a sufficient early track record, capability, and reputation to begin the recruitment of external funding. Additional funding, both a continuation of the system benefit change and external funds, are essential to our future. This process requires new expenditures and a strengthening of our current staffing. We have recognized the need to spend more now in order to accomplish more in the future.

The approved business plan has three major elements as follows:

- Expanded Staff – The Board has approved the following positions (contractors at 2-3 days a week):
    a. Managing Director Programs
    b. Director of Education
    c. Managing Director Development

  We will also add personnel effort to Sales Channel Development and Financial Reporting.

- Creation of Clean Energy Enterprise Solutions - An initiative designed to provide market development reports and guidance that furthers and supports our “enterprise model” for mission. It is intended, that this be ultimately supported by external funds. The Managing Director for Development will also serve as the manager of this initiative.

- Recruitment of external funds for Program Related Investments via a new SEF Limited Partners Fund I. This is intended to initially be a $5 million fund, later expanding to $20 million, which can be used both within the PPL Territory and beyond.

These initiatives are designed as the next step in the Board direction to achieve both “evergreen” status for the SEF and a $1 billion marketplace impact over a

20 year projected period. Several key elements are necessary to accomplish this plan:

- Continuance of the SEF system benefit change beyond the end of 2004. Continued ratepayer funding, ordered by the PUC, until 2010. This provides an additional $20 million in income and allows the SEF to become self-sustaining with close to $60 million in “evergreen” assets. Absent this commitment, we plan to exit operation in 2007.
- The recruitment of $ 20 million in external funds which are raised from Foundations as Program Related Investments, meaning, the Foundations receive the returns but the SEF uses the funds for development of a sustainable energy market, our mission.

Assuming our funds continue to leverage applicants and other private and public funds, and that we continue to recycle funds over an average five year cycle, we believe we will accomplish a $1 billion infusion of capital. We believe this will create a 1000 mw equivalent of sustainable energy over a 20 year forecasted life of the 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 our job. We intend to accomplish it.

Appendix A

Board Membership

Brian C. Nagle
President, & Chairman Program Related Investments Committee
PPL, Service Corporation
Two North Ninth Street
GENTW8
Allentown, PA 18101-1170

Eric J. Epstein
Vice President, & Chairman Administrative/Finance Committee
EFMR Monitoring Group
4100 Hillsdale Road
Harrisburg, PA 17712-1419

Gary F. Lamont
Treasure & Secretary & Administrative/Finance Committee
Conyngham Pass Company
SR 93, PO Box 702
Conyngham, PA 18219-0702

Arthur Morris
Utilities Solutions
222 West Orange Street
Lancaster, PA 17603

Karen O'Neill
Green Mountain Energy
75 Green Mountain Drive
South Burlington, VT 05407-2206

Craig C. Onori
AGERE Systems
Room 12B 155
1110 American Parkway NE
Allentown, PA 18109

Marcus Sheffer
Energy Opportunities, Inc.
1200 East Camping Area Road
Wellsville, PA 17365-9783

PP&L SUSTAINABLE ENERGY FUND
d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
(A Not-for Profit Corporation)

Financial Statements and Auditors' Report

June 30, 2002

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

PP&L SUSTAINABLE ENERGY FUND
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CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 SOUTH CEDAR CREST BOULEVARD • ALLENTOWN, PA 18103-5443 • (610) 435-7489
2710 WILLIAM PENN HIGHWAY • EASTON, PA 18045-5268 • (610) 258-2855
FAX Allentown (610) 435-8794 • FAX Easton (610) 258-5691
www.crycpas.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
PP&L Sustainable Energy Fund
Allentown, PA

We have audited the accompanying statement of financial position of PP&L Sustainable Energy Fund (A Not-for-Profit Corporation) as of June 30, 2002 and 2001 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PP&L Sustainable Energy Fund as of June 30, 2002 and 2001, and the results of its operations and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Campbell, Rappold & Yurasits LLP
Certified Public Accountants

August 28, 2002

PP&L SUSTAINABLE ENERGY FUND
d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
(A Not-for Profit Corporation)

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2002	2001
ASSETS:		
Cash and Cash Equivalents	$1,066,685	$ 812,041
Ratepayer's Contribution Receivable	292,833	266,104
Royalty Receivable	7,094	2,160
Investments (Note 3)	7,160,876	6,526,852
Program Related Investments, Net (Note 4)	1,367,005	334,167
Office Equipment, Net (Note 5)	6,090	9,410
Prepaid Expense and Deposits	2,475	875
Total Assets	$9,903,058	$7,951,609
LIABILITIES:		
Accounts Payable	$ 21,691	$ 25,089
Accrued Employee Benefits	28,957	18,251
Total Liabilities	50,648	43,340
NET ASSETS:		
Unrestricted Net Assets	9,852,410	7,908,269
Total Liabilities and Net Assets	$9,903,058	$7,951,609

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
(A Not-for Profit Corporation)

STATEMENT OF ACTIVITIES

	Year Ended June 30	
	2002	2001
Revenues and Gains:		
PP&L Ratepayers' Contribution (Note 8)	$3,252,679	$8,196,762
Interest Income	17,715	26,050
Investment Return (Note 3)	(718,680)	76,852
Interest-Program Loans	15,794	–
Royalties	16,342	2,160
Other	10,125	18,300
Total Revenue and Gains	2,593,975	8,320,124
Expenses:		
Grants Made (Note 10)	73,999	35,401
Loss Reserve	236,250	15,000
Total Program Expenses	310,249	50,401
Salaries and Wages	146,226	107,595
Fringe Benefits	33,610	29,178
Payroll Taxes	12,418	10,613
Training	340	1,425
Rent	15,755	9,980
Insurance	3,544	3,842
Depreciation	3,320	2,029
Furniture Rental	–	300
Dues and Publications	2,075	463
Marketing	22,750	6,771
Printing and Postage	4,511	6,742
Telephone	5,092	4,864
MIS Support/Web Hosting	6,328	1,466
Start-up Costs (Note 8)	–	103,332
Board Expense/Stipends	23,467	12,523
Director & Officer Insurance	2,400	–
Professional Fees	44,411	42,095
Travel	8,673	10,799
Office Supplies	3,022	5,610
Miscellaneous	1,643	1,827
Total Management and General Expense	339,585	361,454
Total Expenses	649,834	411,855
Increase in Unrestricted Net Assets	1,944,141	7,908,269
Unrestricted Net Assets, Beginning	7,908,269	–
Unrestricted Net Assets, Ending	$9,852,410	$7,908,269

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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STATEMENT CASH FLOWS

	Year Ended June 30,	
	2002	2001
Cash Flows from Operating Activities:		
Increase in Net Assets	$1,944,141	$7,908,269
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	3,320	2,029
Loss Reserve	236,250	15,000
Net Realized and Unrealized Losses on Investments	836,030	90,931
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(31,663)	(268,264)
Increase in Prepaid Expense and Deposits	(1,600)	(875)
Increase (Decrease) in Account Payable	(3,398)	25,089
Increase in Accrued Employee Benefit	10,706	18,251
Net Cash Provided by Operating Activities	2,993,786	7,790,430
Cash Flows from Investing Activities:		
Purchase of Office Equipment and Furniture	–	(11,439)
Purchase of Investments	(4,118,929)	(6,989,723)
Proceeds from Sale of Investments	2,648,875	371,940
Increase in Program Related Investments	(1,300,000)	(350,000)
Return of Program Related Investments	30,912	833
Net Cash Used in Investing Activities	(2,739,142)	(6,978,389)
Increase in Cash and Cash Equivalents	254,644	812,041
Cash and Cash Equivalents, Beginning of Year	812,041	–
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,066,685	$ 812,041

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND
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NOTES TO FINANCIAL STATEMENTS
June 30, 2002

1. Nature of Organization

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund of Central Eastern PA (the Organization) is a Pennsylvania non-profit corporation formed to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PP&L ratepayers.

The Organization was incorporated in November, 1999 and began operations July, 2000. The Organization was formed pursuant to a joint settlement agreement arising from the Pennsylvania Utility Commission (PUC) electric utility deregulation proceedings in 1998. The agreement provides, in part, a rate surcharge on electric power consumers (ratepayers) through 2004. The surcharge is collected from the ratepayers by the power distribution entity, PP&L Electric Utilities Corporation for this local service area, and remitted to the Organization for investment.

The Organization is managed by an executive director who reports to a Board of Directors. The PUC also maintains oversight of the Fund.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PP&L Sustainable Energy Fund have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2002 and 2001, all net assets are unrestricted.

Cash and Cash Equivalents

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

Concentration of Revenue

The Organization receives a substantial amount of its support from the PP&L ratepayers contributions, as more fully described in Note 1, which expires after 2004.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, individuals 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.

(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 Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Organization places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Organization has significant investments in stocks and bonds. Though the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Organization. In addition, investments do not represent significant concentrations of market risk in as much as the Organization's investment portfolio is adequately diversified among issuers. Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers and investees, who are predominately located in Central Eastern Pennsylvania and associated with early stage sustainable or alternate energy industry. Consequently, the ability to realize the amounts may be affected by economic fluctuations in the power industry in this geographic region. The Organization performs ongoing credit evaluations and reserves for estimated and known uncollectibles.

Office Equipment

Office equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and computed on straight-line and accelerated methods.

Advertising Costs

Advertising costs are expensed as incurred.

3. Investments

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

3. **Investments (continued)**

	2002	2001
U.S. Government Obligations	$1,324,330	$ 969,321
Corporate Bonds	490,638	802,414
Equity Securities	5,164,458	4,244,038
Temporary Cash and Money Market	181,450	511,079
	$7,160,876	$6,526,852

Investment return is summarized as follows:

	2002	2001
Interest and Dividend Income	$ 162,871	$195,368
Net Realized and Unrealized Losses On Investments	(836,030)	(90,931)
	(673,159)	104,437
Less Investment Advisory and Custodian Fees	(45,521)	(27,585)
Total Investment Return	$ (718,680)	$ 76,852

4. **Program Related Investments**

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

Loans	2002	2001
Due in monthly principal repayments of $1,042 through April 2002, $3,125 through April 2003 and $7,500 thereafter, due April 2008. $250,000 advanced as of June 30, 2001 with required principal payments reduced pro-rata.. Royalties payable at 3% of gross revenue, up to a maximum of $650,000. Secured by assets of the borrowers.	$480,710	$249,167

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

	2002	2001
Loans (continued)		
Interest only at 10%, due February, 2006, secured by assets of the borrower	100,000	100,000
Due in monthly installments of $3,042, including interest at 8%, due December 2006, secured by assets of the borrower	137,545	–
Due March 2007. Royalties payable at 3% of net factoring sales, up to a maximum of $487,500, secured by assets of the borrower	325,000	–
	1,043,255	349,167
Less Loss Reserve	(251,250)	(15,000)
Total Loans, Net	792,005	334,167
Nonmarketable Equity Securities		
250,000 Shares Community Energy, Inc. Series A Preferred	250,000	–
124,521 Shares Nova Cruz Products, Inc. Series A Convertible Preferred	325,000	–
Total Equity Investments	575,000	–
Total Program Related Investments	$1,367,005	$ 334,167

5. **Office Equipment**

	2002	2001
Furniture	$ 6,904	$ 6,904
Computer Equipment	4,535	4,535
	11,439	11,439
Less Accumulated Depreciation	(5,349)	(2,029)
	$ 6,090	$ 9,410

6. Lease

The Organization leases its office facilities under a non-cancellable operating lease expiring June 30, 2003 at $1,400 per month for the year ended June 30, 2002 and $1,600 per month thereafter. Effective October 1, 2002, the Organization executed a replacement lease with the same landlord for larger space. The new lease provides for monthly base rent of $2,467 through September 30, 2003 and annual adjustments thereafter based on the consumer price index, through September 30, 2005. Future minimum lease payments for the current lease's remaining three months and the new lease are:

Years ended June 30:	Amount
2003	$26,999
2004	29,598
2005	29,598
2006	7,400

7. Retirement Plan

The Organization has a defined contribution retirement plan (the Plan) covering all full time employees having attained 21 years of age with three months of service. The Organization makes contribution to the Plan each year equal to 10% of all participants compensation plus 4.3% of compensation in excess of 40% of the Social Security Taxable Wage base in effect on the first day of each Plan year. Total expense was $13,720 and $11,980 for the years ended June 30, 2002 and 2001, respectively.

8. Startup and Pre-Operating Activities

Included in Ratepayer Contributions in the accompanying 2001 Statement of Activities is $4,663,323 of surcharges collected for the period January 1999 (inception) through June 30, 2001 plus $199,929 of related earnings. Also, included in Start-up Costs in the statement is $71,161 of organizational and development costs incurred during the same period. In July 2000, upon commencement of the Organization's operations, the former custodian of the funds distributed the net amount to the Organization. Accordingly, the amounts are reported in current period operations.

9. Line of Credit

The Organization has a $750,000 Line of Credit with a bank, expiring March 2003. 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 period ended June 30, 2002.

10. Related Party Transactions

The Organization awarded $43,000 of program grants in 2002 to two organizations, each of which has a director who is a board member of the Organization.