



SUSTAINABLE
ENERGY FUND

SUSTAINABLE ENERGY FUND

(Docket # M-00031715 F0003)

**Annual Report to the
Pennsylvania Public Utility Commission
and to the Joint Petitioners**

**For the Period July 1, 2006-June 30, 2007
October 25, 2007**

**Sustainable Energy Fund
968 Postal Road
Suite 315
Allentown, PA 18109
610-264-4440
610-264-4949 Fax**

**Jennifer Hopkins
President**

**Email: TheSEF@TheSEF.org
www.TheSEF.org**

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EXECUTIVE SUMMARY

In 2006-2007, the Sustainable Energy Fund (SEF) continued its seventh year of supporting programs that benefit residential, commercial, institutional, and industrial customers in the PPL service territory and beyond. Our non-profit organization is dedicated to the use of renewable energy, clean energy technologies, and energy conservation and education. Founded in 1999 by the Pennsylvania Utilities Commission (PUC), the SEF promotes clean and renewable energy initiatives and enterprises to benefit customers within the PPL service territory and throughout Pennsylvania.

Our mission remains to develop and invest in economically viable, energy-related businesses, projects and educational initiatives to create innovative, market-based technologies and solutions for environmentally sound and sustainable energy usage. For projects that fit our mission, the SEF continues to provide financial assistance and attractive funding options including:

- Commercial loans and grants
- Business partnerships
- Equity investments

Ideal projects emphasize:

- Energy conservation and efficiency: LED lighting technology, LEED buildings
- Renewable energy sources: solar, anaerobic digestion/biomass, wind
- Clean energy technologies: fuel cells, low-impact hydropower, biofuels/ethanol
- Energy education: feasibility studies or broad educational initiatives of significant impact

The SEF intends to continue to seek out entrepreneurs, businesses, agencies, organizations, as well as other non-profit funds, to generate projects which meet the SEF mission. Our intent is to diversify our portfolio of projects to include energy efficiency, LEED construction, solar technology, biomass projects, and ground source heat pump technology as well as continue to support community wind projects and educational activities which enhance the understanding and acceptance of renewable energy technologies and culture.

Last year, the SEF invested in a number of projects through various and traditional mechanisms. Some portions of the projects are funded through a grant vehicle while others through either a loan arrangement or equity participation. As a matter of SEF policy, all projects, programs and investments are reviewed by a Program Related Investments Committee (PRI), a subcommittee of the Board of Directors, for mission fit, credibility of the investment or grant, as well as its capability to have a “multiplier effect”. The Committee reviews the management team’s due diligence and prepares a recommendation to the Board of Directors. This is followed by a final review, authorization by the Board of Directors, and execution by the management of the SEF. The following criteria are examples of characteristics of projects supported by the SEF:

- Energy Efficiency/Energy Conservation Projects that save electricity or other energy. These may include green building technologies, efficient lighting, energy load management controls, etc.
- Renewable Energy projects which draw power from naturally replenished sources. These may include solar power, wind power, geothermal power, or power generated from biomass sources.

- Clean Energy Projects that produce energy using technology and processes that have minimal impacts on the environment, such as distributed generation projects.
- Grants. The SEF has in the past disbursed a limited number of grants to organizations seeking funding of projects consistent with the Fund's mission, such as education projects, feasibility studies leading to a larger activity, or support for trade related activities such as conferences and seminars.

PROGRAM RELATED INVESTMENTS

Over the past year, efforts were made to align SEF infrastructure, resources, and goals to the fulfillment of our mission. PRI projects are reviewed for financial sustainability, replicability, and feasibility.

The Program Related Investments are divided into Financial Investments, the Light Emitting Diode (LED) Program, the Anaerobic Digester Program, and Grants. Each one of these projects, described below, had an “energy value” or complimentary “energy savings” component pre-determined prior to developing the “financial relationship” with the appropriate entity.

I. FINANCIAL INVESTMENTS

The SEF's financial investments in 2007 have resulted in energy savings of at least 318,000 kwh per annum and 1,444 tons of reduced greenhouse gas emissions.

- **Plextronics, Pittsburgh, Allegheny County: \$750,000**

In January 2007 the SEF funded \$750,000 to Plextronics, a Pittsburgh-based firm, for further development of their Plexcore™ technology for organic solar cells. Plextronics is a world leader in developing active layer technology for printed electronic devices. The Plexcore PV technology is paving the way for the commercialization of organic solar cells as a leading source of renewable energy. Organic solar cells use extremely thin layers of plastic semiconductors, instead of silicon, to absorb light and create electricity. They can be lightweight, flexible, and can operate well even in low-light conditions. The semiconductors can be printed like inks resulting in a much lower cost of production.

Project	Funding	Kilowatt-hours generated per year	Kilowatt-hours saved per year	Greenhouse Gases saved (metric tons/year)
Plextronics, Inc.	\$750,000	unknown at this time	unknown at this time	unknown at this time

- **Wanner Pride n' Joy Farm, Lancaster, Lancaster County: \$300,000**

In April 2007, Wanner Pride n' Joy Farm, a 600-head dairy farm located in the Lancaster County community of Narvon, received funding from the SEF for the installation of an anaerobic digester for electrical production and reduction of greenhouse gases. The anaerobic digester processes dairy manure and generates electricity for dairy operations and possible resale to the power grid. The digester can convert animal waste to electricity at a rate of 1 million kilowatt hours per year. At that rate, it is enough to provide green electricity to approximately 100 houses in the PPL power grid for one year. In addition to providing “green” or renewable energy, the project results in the creation of renewable energy credits and carbon credits. Other benefits include improved manure handling, reduced odor generation, and bedding material for the dairy herd. At a time when locating and creating alternative energy sources have gained national and state focus, manure digesters make financial sense for livestock producers. Aside from turning

manure from a waste product into a renewable energy source, digesters are one way for large concentrated animal feeding operations (CAFO) to meet the environmental and public pressures of managing manure.

Project	Funding	Kilowatt-hours generated per year	Kilowatt-hours saved per year	Greenhouse Gases saved (metric tons/year)
Wanner Pride n' Joy Farm	\$300,000	876,000	N/A	1,176

- **Shazaam Realty, Kingston, Luzerne County: \$125,000**

The SEF committed to fund a portion of an energy-efficient building on Market Street in Kingston, PA. Shazaam Realty LLC is demolishing an old building and erecting a 4,700 square foot modern energy efficient building on a 1.2 acre site. The energy efficient technology includes a ‘state-of-the-art’ heating and air conditioning system which is projected to decrease energy use by 15%, specialized lighting, skylights for interior lighting, and the use of recyclable materials. Renewable energy is also included in the building with a solar roof which consists of 18 photovoltaic cells.

Project	Funding	Kilowatt-hours generated per year	Kilowatt-hours saved per year	Greenhouse Gases saved (metric tons/year)
Shazaam Realty	\$125,000	42,120	200,000	180

- **Sinewave Energy Technologies, Conshohocken, Montgomery County: \$500,000**

The SEF has committed to fund Sinewave Energy Technologies, LLC an energy management technology company that has developed breakthrough energy efficient technology. This technology is a revolutionary method to control high intensity discharge (“HID”), fluorescent, and incandescent lamps. Sinewave Technology has almost universal application for control of HID, fluorescent and incandescent lamps that have defied existing dimming control for decades.

Further, Sinewave’s technology is not dependent on lamp type or wattage. It is compatible with most modern lamp and ballast combinations. This benefit provides for reduced installation costs. The Sinewave Technology controls the lamp source output by way of varying the amplitude of the sinewave, not “chopping” it. It continuously monitors the input voltage and “checks” it against the control requirement then adjusts accordingly. The use of Sinewave Technology to monitor and quantify both the input source and the affected load, benefits the customer by reducing energy use, reducing equipment failures, and improving maintenance.

Project	Funding	Kilowatt-hours generated per year	Kilowatt-hours saved per year	Greenhouse Gases saved (metric tons/year)
Sinewave	\$500,000	N/A	118,272	88

II. LED PROGRAM - \$214,588

The SEF continues to provide a turnkey energy savings partnership product to municipalities throughout Pennsylvania. Beginning with an energy audit, which quantifies the savings associated with retrofitting incandescent traffic signals to LEDs, ordering product and managing the installation, to financing 100% of the cost associated with the installation, the SEF provides an innovative way for municipalities to promote energy efficiency with no additional cost to the taxpayer. The SEF provides funding for installation through a loan which the municipalities pay back with the money saved in electrical bills. After five years, the city will keep all of the savings. Installation of LEDs can provide: 1) up to 90% savings on lighting electricity bills; 2)

10 times signal life over incandescent bulbs; and 3) reduce harmful greenhouse gas emissions. The LED project continues to be a natural fit with the SEF's mission of promoting renewable, clean energy technologies and energy conservation. Over the past year, 10 municipalities have participated in the program. The SEF's LED investments during the past year are predicted to save over 4.1 million kilowatt hours and contribute toward the reduction of 5,422 tons of greenhouse gases over a five-year period.

The SEF is an approved COSTARS vendor. The COSTARS program is the Commonwealth of Pennsylvania's cooperative purchasing program designed to assist local governments and other non-profit agencies. As a qualified vendor, SEF's products are now available to over 4,550 local public procurement units throughout the state without the bidding requirements.

SEF LED PROGRAM METRICS (FIVE-YEAR PERIOD)

SEF Project Name	County	Project Cost	Lenses Installed	Kilowatt Hours Saved	Tons of Greenhouse Gases Reduced
Town of Bloomsburg	Columbia	\$8,900.00	66	164,800	216
Borough of Clarion	Clarion	\$25,726.00	211	527,200	691
Borough of Hamburg	Berks	\$11,135.00	98	233,600	307
Borough of Minersville	Schuylkill	\$20,012.00	152	360,000	472
Town of Mount Carmel	Northumberland	\$7,100.00	62	146,576	192
Muhlenberg Township	Berks	\$37,600.00	287	856,000	1123
Northampton Borough	Northampton	\$15,250.00	119	291,200	382
Town of Pottsville	Schuylkill	\$51,900.00	378	930,400	1221
Borough of St. Clair	Schuylkill	\$16,250.00	117	268,800	352
Shenandoah Borough	Schuylkill	\$20,715.00	156	354,400	466
Total		\$214,588.00	1,646	4,132,976	5,422

Note:

1. The calculation used to generate the greenhouse gases reduced is based upon the national average of CO2 emissions caused by various power generation facilities. The US EPA provides this number (1.64 lbs/kw-hr).
2. The calculations for kilowatt-hours saved and greenhouse gases reduced are based upon the 8-year life of the LED lens.

III. ANAEROBIC DIGESTER PROGRAM

The SEF has been awarded an Energy Harvest Grant from the PA DEP in the amount of \$440,854 for the construction of an anaerobic digester which will convert livestock manure into methane gas which will feed either a modified internal combustion engine or solid oxide fuel cell and generate electricity to the grid and to the farm. This "green" electricity will have multiple financial components: the intrinsic value as determined by fair market conditions and the value of the renewable energy credits (RECs), and the value of carbon credits (biomass).

IV. GRANT INVESTMENTS DISBURSED

- **City of Allentown (LED Installations), Lehigh County: \$5,000**

In June 2007, light emitting diode (LED) fixtures, the first such area lights in eastern Pennsylvania, were installed outside Allentown City Hall – at no cost to the City – as a demonstration project facilitated by the SEF. The LED lights are expected to have an operating life from 50,000 to 100,000 hours of use, making them virtually maintenance free. The state-of-the-art lighting technologies reduce energy consumption, improve lighting, and minimize light pollution. The LED lights are part of an ongoing implementation program of energy efficiency

that Allentown is performing to save costs and energy. LED lights had already been successfully used in traffic lighting. Each of the three new LED lights uses 70 watts. They replace metal halide lights that used about 170 watts each. In addition, the new lights have improved foot-candle light levels 2 to 4 times previous light levels. The City should save about 25,000 kilowatt hours and \$5,000 in combined electric and maintenance costs over the life of the new LED fixtures. An additional benefit of the new LED lights is their compliance with the “Dark Skies” program designed to prevent light shining upward into the atmosphere – otherwise known as light pollution.

- **Solar Scholars™ : \$81,802**

Through the SEF’s Solar Scholars™ Program, launched in 2005-2006, Pennsylvania college students are designing and implementing working solar photovoltaic (PV) technology systems on their campuses to generate electricity. The SEF continued the Solar Scholars™ program with an additional \$81,802, bringing the total to \$131,802 for the inaugural program. This solar energy education initiative is preparing the next generation of energy conservation leaders with the knowledge they will need to make informed decisions to promote renewable energy sources and conservation. As a result of SEF’s investment, six universities are poised to implement up to 18 kwh peak demand of grid-tied renewable energy systems.

Students from the following six Pennsylvania colleges and universities participated in the program:

- Bucknell University (Lewisburg, Union County) www.bucknell.edu
- Clarion University of Pennsylvania (Clarion, Clarion County) www.clarion.edu
- Mercyhurst College (Erie, Erie County) www.mercyhurst.edu
- Messiah College (Grantham, Cumberland County) www.messiah.edu
- The Pennsylvania State University (University Park, Centre County) www.psu.edu
- Villanova University (Villanova, Delaware County) www.villanova.edu

Participation is open to colleges and universities throughout Pennsylvania and offers the following benefits:

- Funding, incentives, and academic credit for students to design, build and operate a PV-powered solar installation of significant impact on their campus.
- Financial sponsorship for selected students to attend a weeklong, hands-on, training and certification workshop on applied PV and design. Participants return to campus as “solar champions,” ready to advocate solar power as a viable, efficient and environmentally sound solution.

Currently plans are being made to re-launch the program in the summer of 2008.

- **Pine Street Housing, Hazleton, Luzerne County: \$33,000**

The purpose of this grant, which totaled \$75,000, was to assist in making the Pine Street Neighborhood project affordable and provide a demonstration project on sustainable residential housing in northeast Pennsylvania. The Pine Street Neighborhood project consists of the transformation of a former brownfield site to an innovative residential community. Twenty-five (25) single-family homes were constructed for sale to eligible buyers. The homes feature renewable energy, energy conservation and efficiency, sustainable energy design, materials and construction methods. The project encompasses a three block area of the City of Hazleton and is

adjacent to the downtown business district. This project is about affordability, accessibility, sustainability, energy and resource efficiency, and smart growth. The project is the first of its kind in Northeastern Pennsylvania and will be utilized as a model project to be replicated throughout the region and beyond.

- **AFC First Financial, Allentown, Lehigh County: \$5,000**

The SEF committed \$10,000, of which \$5,000 was paid over the past year. This grant enabled AFC First Financial to sponsor seminars for home contractors to develop interest in the Keystone Help Loan Program. These seminars are now part of a Webinar program which runs several times per week, thereby increasing the number of home contractors attending the training. Over 1,000 loans were made as a result of this training.

- **Wilson College, Chambersburg, Franklin County: \$11,588**

The SEF funded \$11,588 of \$24,050 to develop and deliver a hands-on demonstration of renewable energy in wind, PV, and solar. Also included in the grant is the development of a sustainable energy curriculum for an undergraduate course, and community workshops.

- **Twin Valley School District, Elverson, Chester County: \$12,250**

Twin Valley School District, located in Elverson PA, designed and built an aesthetically pleasing, energy efficient educational facility, Twin Valley Elementary Center, which reflects the community interest in sound environment planning. This Center will serve as a model for a high performance green building that will be open to other schools and businesses for tours and information. The SEF grant was for the LEED Silver Certification.

- **Tides Center (PCIEP), Allegheny County: \$1,908**

The SEF funded a grant which enabled PCIEP to assist 10 member colleges and universities in completing a greenhouse gas inventory of their campuses. PCIEP provided instructions to faculty, staff, and students at selected campuses for a gas inventory model and also to serve as a resource for campuses participating in the program.

GREEN CONNEXIONS, INC.

Green Connexions, Inc. is a for-profit C corporation owned by the SEF organization. The business of Green Connexions, as seen for the future, is to provide products and services through two or three renewable energy and energy efficiency business ventures within the territory of the existing PPL rate-base and expandable throughout the Commonwealth of Pennsylvania. Profits from Green Connexions will be funneled back to the SEF to help sustain its mission. Green Connexions continues to develop opportunities in the renewable energy and energy conservation business sectors and evaluate their value as a subsidiary of the SEF.

THE FUTURE

The vision of the Sustainable Energy Fund remains strong: invest in economically viable, energy-related businesses, projects and educational initiatives to create innovative, market-based technologies and solutions for environmentally sound and sustainable energy usage. At the SEF we have started working on new plans for the upcoming year.

Currently we are working on establishing a residential energy program that would benefit the ratepayers of PPL. Plans are to analyze different options and hopefully develop an ongoing program that will aid residential ratepayers manage their energy costs.

Also being implemented is a strategy to financially support small businesses in preparation of the rate cap removal on January 1, 2010. We are working with other partners and hope to unveil a new program in 2008.

The SEF commitment to green and renewable energy is funded through niche financing with creative terms. We are most interested in projects that fulfill our mission and want to support ones that are financially sustainable and replicable. Our goal is to a commitment of an additional \$7,000,000.

From time to time, SEF will explore other business ventures which fit into the portfolio of renewable energy products, services, and applications that are not only consistent with SEF's policies and mission, but also are able to expand the capabilities of supplying state-of-the-art energy savings products to the ratepayers of the Commonwealth.

CONCLUSION

The past year was exciting and challenging; we would like to thank all who contributed to our growth. Over the next year the SEF plans to continue our mission to promote, develop, and invest in clean energy initiatives to benefit residential, commercial, institutional and industrial customers within the PPL service territory and beyond. We look forward to new and exciting challenges next year.

A true and correct copy of this report was filed with the PUC on November 30, 2007.

SEF SEAL





Jennifer Hopkins, President
Sustainable Energy Fund

APPENDIX A: BOARD OF DIRECTORS

Chairman: Gary F. Lamont

Vice Chairman: Dennis A. Maloskey
Chairman: PRI and Building Committees
Member: Grants Committee

Secretary & Treasurer: Alan A. Roman
Chairman: Finance Committee
Member: PRI and Building Committees

Director: Eric Epstein
Chairman: H/R and Marketing Committees
Member: Finance Committee

Director: Robert J. Davis
Member: HR, Marketing, Grants, PRI, and Building Committees

Director: G. Scott Paterno
Chairman: Grants Committee
Member: HR, Marketing, PRI, and Building Committees

Director: Andrew Stein
Member: PRI and Finance Committees

APPENDIX B: INDEPENDENT AUDITOR'S REPORT

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

Financial Statements and Auditors' Report

June 30, 2007

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

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

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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

LUTHER R. CAMPBELL, JR., CPA, CSEP, CSRP
JAMES S. ANDERSON, CPA
THOMAS J. BAUMGARTNER, CPA
JAMES F. BOVA, CPA
MARYSUE BULCAVAGE, CPA
MELISSA A. GRUBE, CPA, CSEP
DENNIS S. HELLER, CPA
WARREN R. HENDERSON, CPA
ROBERT J. TUCKER, CPA

DAWN C. ANDERSON, CPA
TARA L. BENDER, CPA
MICHELLE R. BITNER, CPA
SUSAN S. KOSS, CPA
HEIDI D. WOJCIECHOWSKI, CPA

CONSULTANT
DALLAS C. HENNINGER, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Sustainable Energy Fund of Central Eastern PA
Allentown, PA

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sustainable Energy Fund of Central Eastern PA as of June 30, 2007, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Campbell, Rappold & Yurasits LLP
Certified Public Accountants

September 20, 2007

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

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

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

See notes to financial statements.

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

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

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

See notes to financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2007

With Comparative Totals for 2006

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

See notes to financial statements.

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

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

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

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. Nature of Organization

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

The Fund was formed pursuant to a joint settlement agreement arising from the Pennsylvania Utility Commission (PUC) electric utility deregulation proceedings in 1998. The agreement provides, in part, a rate surcharge on electric power consumers (ratepayers) which expired on December 31, 2006.

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

a. Principles of Consolidation

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2007 and 2006, all net assets are unrestricted.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Concentration of Revenue

The Fund receives a substantial amount of its support from the PPL ratepayers contributions, as more fully described in Note 1, which expired December 31, 2006.

Donated Services

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

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Investments in Marketable Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Program Related Investments

(a) Linked Deposits

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

(b) Loans

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

Program Related Investments (Continued)

(c) Allowance for Loan Losses

The allowance for loan losses has been established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level considered adequate to provide for potential loan losses. In making this determination, management takes into consideration the results of internal review procedures, prior loan loss experience, an assessment of the effect of current and anticipated future economic conditions, the financial condition of the borrower and such other factors that, in management's judgment, deserve consideration. The determination of the adequacy of the allowance is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

(d) Nonmarketable Equity Securities

Nonmarketable equity investments are holdings of less than 20% of the stock of investees and are carried at cost. The shares carry various conditions or restrictions on transfers and redemptions. Cost is reduced for permanent declines in value, as estimated by management, and dividends, if any, are treated as income when received. Investees are typically start-up developmental activities and as such are highly speculative. The determination of write-downs, if any or ultimate realization of the investment is inherently subjective and as such, it requires material estimates regarding their valuation that are susceptible to significant change. Royalty and dividend income is recognized as revenue when received.

Concentration of Credit and Market Risk

Financial instruments that potentially expose the Fund to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Fund places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Fund has significant investments in stocks and bonds. Though the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Fund. In addition, investments do not represent significant concentrations of market risk in as much as the Fund's investment portfolio is adequately diversified among issuers.

Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers and investees who are predominately located in Central Eastern Pennsylvania and associated with early stage sustainable or alternate energy endeavors. Consequently, the ability to realize the amounts may be affected by economic and political fluctuations in the power industry in this geographic region. The Fund performs ongoing credit evaluations and reserves for estimated and known uncollectibles.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2. Summary of Significant Accounting Policies (Continued)

Office Equipment

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

Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the original useful lives of the assets are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred.

3. Investments

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

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

Investment return is summarized as follows:

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

4. Program Related Investments

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

	<u>2007</u>	<u>2006</u>
<u>Linked Deposit</u>		
Perry Green Building Housing Corporation - certificate of deposit with bank, 1% interest.	\$ -	\$ 1,015,061
<u>Loans</u>		
Powerweb Technologies, Inc. - interest only accrues at 5% per annum, due in full January, 2008	228,000	228,000
Energy Unlimited, Inc. - interest only due monthly at 10%, due December, 2006	-	100,000
Energy Unlimited, Inc. - interest accruing at 7.5%, principal and accrued interest due December 31, 2006	-	200,000
Nova Cruz, Products, Inc. - due March 2007, royalties payable at 3% of net factoring sales, up to a maximum of net factoring sales, up to a maximum of \$487,500, secured by assets of the borrower. Foreclosed in August 2003, reduced to expected net realized value. reduced to expected net realized value.	50,000	50,000
Londonderry School - due in monthly installments of \$2,773 including interest at 3%, due in full May, 2011	424,971	449,417
Pine Hurst Acres - \$1,000 a month plus interest at 2%, due December, 2012	122,000	134,000

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2007

4. Program Related Investments (Continued)

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

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2007

4. Program Related Investments (Continued)

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

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2007

4. Program Related Investments (Continued)

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

5. Office Equipment

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

6. Lease

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

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

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

7. Retirement Plan

The Fund has a defined contribution retirement plan (the Plan) covering all full time employees having attained 21 years of age with three months of service. The Fund makes contribution to the Plan each year equal to 3% of all participants' compensation. In addition the Fund elected to make a discretionary contribution of 1% of salaries, for the year ended June 30, 2007. Total expense was \$18,043 and \$24,112 for the years ended June 30, 2007 and 2006, respectively.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2007

8. Line of Credit

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

9. Comparative Information

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

APPENDIX C: ENERGY METRICS

ENERGY ANALYSIS FOR 2007 SEF FUNDED PROJECTS (ONE-YEAR PERIOD)

Project	Funding	Kilowatt-hours generated per year	Kilowatt-hours saved per year	Greenhouse Gases Saved (metric tons per year)
Plextronics	\$750,000	unknown at this time	unknown at this time	unknown at this time
Wanner Pride n' Joy Farm	\$300,000	876,000	N/A	1,176
Shazaam Realty	\$125,000	42,120	200,000	180
Sinewave	\$500,000	N/A	118,272	88
TOTAL	\$1,675,000	918,120	318,272	1,444

SEF LED PROGRAM METRICS (FIVE-YEAR PERIOD)

SEF Project Name	County	Project Cost	Lenses Installed	Kilowatt Hours Saved	Tons of Greenhouse Gases Reduced
Town of Bloomsburg	Columbia	\$8,900.00	66	164,800	216
Borough of Clarion	Clarion	\$25,726.00	211	527,200	691
Borough of Hamburg	Berks	\$11,135.00	98	233,600	307
Borough of Minersville	Schuylkill	\$20,012.00	152	360,000	472
Town of Mount Carmel	Northumberland	\$7,100.00	62	146,576	192
Muhlenberg Township	Berks	\$37,600.00	287	856,000	1123
Northampton Borough	Northampton	\$15,250.00	119	291,200	382
Town of Pottsville	Schuylkill	\$51,900.00	378	930,400	1221
Borough of St. Clair	Schuylkill	\$16,250.00	117	268,800	352
Shenandoah Borough	Schuylkill	\$20,715.00	156	354,400	466
Total		\$214,588.00	1,646	4,132,976	5,422

Note:

1. The calculation used to generate the greenhouse gases reduced is based upon the national average of CO2 emissions caused by various power generation facilities. The US EPA provides this number (1.64 lbs/kw-hr).
2. The calculations for kilowatt-hours saved and greenhouse gases reduced are based upon the 8-year life of the LED lens.