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

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2017

Sustainable Energy Fund
(a Not-for-Profit Corporation)
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J.H. Williams & Co., LLP
OUR PASSION IS SERVICE
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Sustainable Energy Fund
Schnecksville, Pennsylvania

We have audited the accompanying consolidated financial statements of the Sustainable Energy Fund (a not-for-profit corporation) and Subsidiary, which comprise the statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the six-month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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To the Board of Directors
Sustainable Energy Fund

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Energy Fund (a non-profit corporation) and Subsidiary as of December 31, 2017, and the changes in net assets and its cash flows for the six-month period then ended in conformity with accounting principles generally accepted in the United States of America.

J.H. Williams & Co., LLP

May 7, 2018

Sustainable Energy Fund
Consolidated Statements of Financial Position
December 31, 2017

	2017
ASSETS	
Cash and cash equivalents	$ 362,332
Accounts receivable	94,106
Inventory	1,377
Investments (Notes 3 & 4)	10,127,454
Program related loans receivable, net (Note 5)	9,102,032
Equipment, net (Note 6)	1,828,199
Prepaid expense and deposits	34,362
	$ 21,549,862
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 13,818
Accrued expense and deferred revenue	92,687
Accrued salary and benefits	36,659
Deferred ESA income	349,584
TOTAL LIABILITIES	492,748
NET ASSETS	
Unrestricted net assets	21,057,114
	$ 21,549,862

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Activities
For the six-month period ended December 31, 2017

	2017
REVENUES AND GAINS	
Grant revenue	$ 10,200
Project revenue	1,200
Interest income - operating and money market	22
Investment return:	
Interest and dividend income	116,634
Net realized and unrealized gains	490,296
Less investment advisory and custodian fees	(34,896)
Interest - program loans	167,029
Other income - program loans	15,491
ESA income	61,791
Education programs revenue	28,625
Donation income	1,000
TOTAL REVENUES AND GAINS	857,392
EXPENSES	
Program services:	
Provision for loan losses	145,701
Provision for bad debts (recoveries)	(22,000)
Operating expenses	543,075
	666,776
Management and general	167,422
TOTAL EXPENSES	834,198
Loss on disposal of assets	1,224
TOTAL EXPENSES AND LOSSES	835,422
INCREASE IN UNRESTRICTED NET ASSETS	21,970
UNRESTRICTED NET ASSETS, BEGINNING	21,059,311
Prior period adjustment	(24,167)
UNRESTRICTED NET ASSETS, ENDING	$ 21,057,114

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Functional Expenses
For the six-month period ended December 31, 2017

	Program Services	Management and General	Total
Program related investments:			
Loan loss provision (recovery)	$ 145,701	$ -	$ 145,701
Bad debt expense	(22,000)	-	(22,000)
Operating Expenses:			
Salaries and wages	155,024	76,817	231,841
Fringe benefits	28,211	19,117	47,328
Payroll taxes / fees	13,854	8,195	22,049
Training	3,693	815	4,508
Recruiting	1,703	30	1,733
	202,485	104,974	307,459
Rent	31,574	7,550	39,124
Taxes	2,005	533	2,538
Property insurance	1,468	390	1,858
Depreciation	62,011	2,505	64,516
	97,058	10,978	108,036
Board stipends	600	-	600
Board expense	-	1,013	1,013
Director recruitment	-	-	-
Dues and publications	2,766	691	3,457
Marketing	78,924	8,665	87,589
Office supplies	2,879	716	3,595
Audit	-	14,850	14,850
Legal	14,953	4,428	19,381
Due diligence	169	-	169
Financial programs	45,001	-	45,001
Financial system support	-	-	-
Contractual services	-	10,155	10,155
Printing and postage	3,027	701	3,728
Telephone	6,930	1,732	8,662
Travel	9,348	3,968	13,316
MIS support / web hosting	6,542	2,181	8,723
Liability insurance	2,312	1,374	3,686
Education programs	70,081	-	70,081
Miscellaneous	-	996	996
	243,532	51,470	295,002
TOTAL OPERATING EXPENSES	543,075	167,422	710,497
TOTALS	$ 666,776	$ 167,422	$ 834,198

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Cash Flows
For the six-month period ended December 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 21,970
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	64,516
Provision for loan losses (recoveries)	145,701
Provision for bad debts (recoveries)	(22,000)
Loss on disposal of assets	1,225
Net realized and unrealized (gains) on investments	(490,296)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:	
Accounts receivable	29,090
Prepaid expenses and deposits	(8,594)
Inventory	118
Accounts payable	(18,764)
Accrued expenses and defered revenue	8,015
Accrued salaries and benefits	(17,926)
Deferred ESA income	(12,917)
NET CASH (USED IN) OPERATING ACTIVITIES	(299,862)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment and furniture	(104,031)
Net (purchase) sale of investments	5,558,262
Issuance of program related loans receivable	(5,406,894)
Repayments of program related loans receivable	408,390
NET CASH PROVIDED BY INVESTING ACTIVITIES	455,727
CASH FLOWS FROM FINANCING ACTIVITIES	-
INCREASE IN CASH AND CASH EQUIVALENTS	155,865
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	206,467
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 362,332

See accompanying notes to financial statements.

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 three net asset categories follows:

> Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets whose use by the Fund is subject to donor-imposed restrictions that can be fulfilled by actions of the Board of Directors pursuant to those restrictions or that expire by the passage of time. The Fund does not have any temporarily restricted net assets.

Permanently Restricted Net Assets – net assets subject to donor-imposed restrictions that may be maintained permanently by the Fund. Permanently restricted assets would primarily be comprised of various donations given to the Fund. Generally, the donors of such assets permit the use of all or part of the income from these assets. The Fund does not have any permanently restricted net assets.

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.

Accounts Receivable

Accounts receivable at December 31, 2017 consists mainly of balances due from third parties for rebates advanced in anticipation of certain energy efficient projects being undertaken by those third parties. Management reviews its outstanding amounts periodically for collectability, and if it determines that an account is uncollectible, it is written off. As of December 31, 2017, management has determined that an allowance for doubtful collections should be reported in the amount of $187,000 based on the collectability status of certain accounts. Any estimated provision (recovery) for uncollectable accounts is included in bad debt expense in the statement of activities.

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 unrestricted net assets 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.

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.

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 uncollectables.

Equipment

Equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets of three to 15 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.

Financial Reporting

In August 2014, the FASB issued *Accounting Standards Update 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. This update provides guidance about management's responsibilities to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related footnote disclosures. The provisions of this Standard are effective for reporting periods ending after December 15, 2016 and have been implemented in these financial statements.

In January 2016, the FASB issued *Accounting Standard Update 2016-01, Financial Instruments – Overall (Subtopic 825-10)*. This standard provides guidance for entities to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The provisions of this Standard are effective for reporting periods beginning after December 15, 2018 for non-profit entities. Management has not yet determined the impact this Standard has on the financial statements.

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, 2019. Management has not yet determined the impact this Standard has on the financial statements.

In August 2016, the FASB issued *Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities.* This Standard provides guidance for not-for-profit entities to improve the reporting of financial information in their financial statements and also provide clarity for related footnote disclosures. The provisions of this Standard are effective for reporting periods beginning after December 15, 2017. Management has not yet determined the impact this Standard has on the financial statements.

In August 2016, the FASB issued *Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230).* This Standard provides guidance for entities to report certain items of cash receipts and disbursements in their statement of cash flows. The provisions of this Standard are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the impact this Standard has on the financial statements.

In November 2016, the FASB issued *Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230).* This Standard provides guidance for entities to report restricted cash as part of cash and cash equivalents when reconciling the beginning-of-period and end-of-period cash totals on the statement of cash flows. The provisions of this Standard are effective for reporting periods beginning after December 31, 2017. Management has not yet determined the impact this Standard has on the financial statements.

Change in Fiscal Year End

The Fund changed its fiscal year end from June 30th to December 31st. Accordingly, the financial statements included herein; i.e. consolidated statement of activities, consolidated statement of functional expenses, and consolidated statement of cash flows, report results from operations for a six-month period.

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.

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, 2017			
	Level 1	Level 2	Level 3	Level 4
Cash management funds	$ 393,567	$ -	$ -	$ 393,567
U.S. Government obligations	1,670,725	-	-	1,670,725
Municipal bonds	49,998	-	-	49,998
Equity securities	7,248,745	-	-	7,248,745
Certificates of deposit	764,419	-	-	764,419
TOTAL ASSETS AT FAIR VALUE	$ 10,127,454	$ -	$ -	$ 10,127,454

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:

	2017
Cash management funds	$ 393,567
U.S. government obligations	1,670,725
Municipal bonds	49,998
Equity securities	7,248,745
Certificates of deposit	764,419
	$ 10,127,454

Investment return is summarized as follows:

	2017
Interest and dividend income	$ 116,634
Net realized and unrealized gains (losses) on investments	490,296
	606,930
Less: Investment advisory and custodian fees	(34,896)
TOTAL INVESTMENT RETURN	$ 572,034

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.

		2017
Loans:		
Londonderry School - refinanced in May 2016 - due in monthly installments of $2,525 including interest of 6.25%, based on a 173 month amortization schedule, balloon payment in June 2021.	$	266,277
Juniata County School District - due in monthly installments of $5,736 including interest at 2%, due November 2020.		189,449
Forest City School District - due in monthly installments of $1,470 including interest at 2%, due May 2021.		59,577
Phalanx Associates - refinanced February 2017 - due in quarterly instalments of $21,331 including interest at 8%, due February 2020.		168,160
Thomas Jefferson University - due in monthly installments of $11,389 including interest at 5%, due July 2018.		67,351
Fegley Realty Estate LLC - refinanced in October 2015 - due in monthly installments of $1,543 including interest at 4.0%, due October 2018.		15,151
Evergreen Road Associates - refinanced in February 2017 - due in quarterly installments of $9,646 including interest at 8%, due in May 2019.		48,320
Radio Road Associates - due in quarterly installments of $11,063 including interest at 8%, with a balloon payment due December 2017.		84,126
Philadelphia Praise Center, Inc. - due in monthly installments of $843 principal only, due December 2018.		9,277
Jewish Home of Greater Harrisburg - due in monthly installments of $1,257 principal only, due February 2019.		17,600
Lawrence Auto Group, Inc. - due in monthly installments of $1,805 including interest at 7.25%, due February 2018.		3,577
Richard Anzivino - due in monthly installments of $275 including interest at 8.25%, due April 2019.		4,147

Hollidaysburg YMCA - due in monthly installments of $167 principal only, due May 2019.	2,667
Kimmel Center, Inc. - due in monthly installments of $1,500 principal only, due May 2019.	24,000
SolarSense MD 1 GC, LLC - due in monthly installments of $6,488 including interest at 7.25%, due February 2019.	86,851
Youth Advocate Programs, Inc. - due in monthly installments of $559 principal only, due August 2019.	11,186
Susqu-View Home, Inc. - due in monthly installments of $1,500 principal only, due October 2019.	33,000
Jewish Federation of Greater Philadelphia - due in monthly installments of $1,417 princpal only, due June 2020.	42,500
SolarSense, LLC - on demand line of credit, monthly payments of 4.00% interest on outstanding principal, payable on demand.	500,000
The Kingsley Association - due in monthly installments of $1,450 principal only, due June 2020.	42,050
Bridge Five Condominium Association, Inc. - due in monthly installments of $976 including interest at 4.00%, due June 2020.	27,822
Colonial Volkswagen, Inc. - due in monthly installments of $672 including interest at 4.00%, due August 2020.	20,371
Indian Springs Sawmill - due in monthly installments of $1,456 including interest at 4.00%, due May 2021.	55,654
CES Community Solar Gardens, LLC - due in 15 monthly interest only payments at 6.5% on outstanding principal, with a balloon payment due January 2019.	4,890,000
Stillmeadow Church of Nazarene - due in monthly installments of $266 including interest at 4.00%, due November 2018.	2,609
J.L. Freed & Sons, Inc. - due in monthly installments of $965 including interest of 4.00%, due December 2020.	29,688
PA Leadership Charter School - due in monthly installments of $3,956 including interest at 4.00%, due June 2019.	69,006
Laura Blau & Paul Thompson - due in monthly installments of $2,560 including interest at 5.00%, due July 2022.	287,006
TBJ, Inc. - due in monthly installments of $683 including interest at 4.00%, due May 2022.	32,571

1952 Bryn Mawr Avenue RH, LLC - due in monthly installments of $1,075 including interest at 6.00%, due June 2027.	150,000
Pennsylvania Family Institute - due in monthly installments of $181 including interest at 4.00%, due June 2020.	5,167
Cherry Hill - due in monthly installments of $5,483 including interest at 6.20% less a monthly servicing fee, due February 2022.	568,852
Chandler Hall - due in monthly installments of $1,979 including interest at 6.25% less a monthly servicing fee, due October 2022.	214,511
Pitcairn Building - due in monthly installments of $542 including interest at 4.0% less a monthly servicing fee, due October 2022.	55,012
Maplewood Virginia, LP - due in monthly installments of $1,737 including interest at 6.5% less a monthly servicing fee, due February 2023.	197,429
The Racquet Club of Philadelphia - due in monthly installments of $1,152 including interest at 6.5% less a monthly servicing fee, due February 2023.	126,345
Leading Age - due in monthly installments of $680 including interest at 6.50% less a monthly servicing fee, due February 2023.	74,102
JCC Metrowest - due in monthly installments of $4,562 including interest at 5.37% less a monthly servicing fee, due January 2020.	119,799
Cast Iron Building - due in monthly installments of $778 including interest at 6.64% less a monthly servicing fee, due January 2024.	75,963
Kobernick Anchin - due in monthly installments of $6,029 including interest at 6.64% less a monthly servicing fee, due January 2024.	479,196
Atkins Deck Treatment Service - due in monthly installments of $905 including interest at 4.00%, due September 2022.	46,909
Forest Hills PA, LLC - due in monthly installments of $1,825 including interest at 5.25%, due December 2024.	270,900
	9,474,178
Less: Allowance for loan losses	(372,146)
TOTAL LOANS	$ 9,102,032

Activity in the allowance for loan losses for the six-month period ended December 31, 2017 was as follows:

	2017
Balance, July 1	$ 226,445
Provision charged to program activities	145,701
Loans charged off	-
Recoveries	-
Balance, December 31	$ 372,146

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 – Equipment

Equipment consisted of the following as of December 31:

	2017
Land	$ 423,531
Furniture	23,508
Office equipment	121,491
NESA equipment	1,444,176
SES equipment	83,767
	2,096,473
Less: Accumulated depreciation	(268,274)
	$ 1,828,199

Depreciation expense amounted to $64,516 for the six-month period ended December 31, 2017.

NOTE 7 – Operating Leases

The Fund leases its office facilities. The prior lease expired on April 30, 2017 and the Fund entered into a two-year lease at another location commencing on March 20, 2017 and ending April 30, 2019.

The fund entered into a non-cancellable operating lease for additional office space commencing in May 2016 and expiring in April 2017. This lease was renewed for an additional year to expire on April 30, 2018. A second renewal term will expire April 30, 2019. Future minimum lease payments are:

Years ended December 31:		
2018	$	66,350
2019		22,133
	$	88,483

Total rent charged to expense under the leases was $33,127 for the six-month period ended December 31, 2017.

NOTE 8 – 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 six-month period ended December 31, 2017. Total employer contributions amounted to 8,833 for the six-month period ended December 31, 2017, and are reported as part of employee benefits in the statement of functional expenses.

NOTE 9 – 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. None of the Fund's cash balances exceeded the $250,000 limit at December 31, 2017.

NOTE 10 – 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 June 30, 2015, 2016 and 2017 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, 2017, there is a net operating loss carryforward available of $374,344. The years ending June 30, 2015, 2016 and 2017 are still subject to examination.

NOTE 11 – Prior Period Adjustment

Unrestricted net assets at July 1, 2017 have been restated to reflect certain deferred revenue from a prior period. A restatement of beginning unrestricted net assets is summarized below:

Unrestricted Net Assets, July 1, 2017	$ 21,059,311
Prior Period Adjustment	
Record deferred revenue on certain ESA agreements	(24,167)
Unrestricted Net Assets (restated), July 1, 2017	$ 21,035,144

NOTE 12 – Subsequent Event

The Organization has evaluated subsequent events through May 7, 2018, the date on which the financial statements were available to be issued.