

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

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Sustainable Energy Fund
(a Not-for-Profit Corporation)
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December 31, 2019 and 2018

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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 consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 auditors consider 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.

Independent Auditors' Report
(Cont'd)

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 consolidated financial position of Sustainable Energy Fund and Subsidiary as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

J.H. Williams & Co., LLP

May 20, 2020

Sustainable Energy Fund
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 183,537	\$ 168,242
Accounts receivable	2,318	80,940
Inventory	2,365	3,390
Investments (Notes 3 & 4)	8,714,322	8,633,097
Program related loans receivable, net (Note 5)	6,861,326	8,955,114
Investment in National Energy Improvement Fund, LLC (Note 6)	274,762	414,327
Property, plant and equipment, net (Note 7)	6,314,738	2,155,305
Prepaid expense and deposits	<u>30,677</u>	<u>34,125</u>
	<u>\$ 22,384,045</u>	<u>\$ 20,444,540</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
LIABILITIES		
Accounts payable	\$ 56,069	\$ 71,607
Accrued expense and deferred revenue	30,765	97,565
Accrued salary and benefits	54,678	63,214
Line of credit	1,640,770	-
Deferred ESA income	<u>297,917</u>	<u>323,750</u>
TOTAL LIABILITIES	2,080,199	556,136
NET ASSETS		
Net assets without donor restrictions	<u>20,303,846</u>	<u>19,888,404</u>
	<u>\$ 22,384,045</u>	<u>\$ 20,444,540</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Activities
For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES AND GAINS		
Grant revenue	\$ 12,500	\$ 5,000
Project revenue	2,400	2,400
Interest income - operating and money market	351	120
Investment return, net	1,076,346	(386,599)
Equity in (loss) of investee	(139,065)	(85,673)
Interest - program loans	453,395	436,994
Other income - program loans	59,942	62,072
ESA income	159,655	157,218
Education programs revenue	31,200	30,098
Donation income	19,576	18,000
Miscellaneous revenue	<u>11,454</u>	<u>11,007</u>
TOTAL REVENUES AND GAINS	<u>1,687,754</u>	<u>250,637</u>
EXPENSES		
Program services:		
Provision for loan losses (recoveries)	(98,394)	(64,142)
Provision for bad debts (recoveries)	(105,966)	(84,220)
Operating expenses	<u>1,050,499</u>	<u>1,217,094</u>
	846,139	1,068,732
Management and general	<u>426,173</u>	<u>350,615</u>
TOTAL EXPENSES	<u>1,272,312</u>	<u>1,419,347</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	415,442	(1,168,710)
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING	<u>19,888,404</u>	<u>21,057,114</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, ENDING	<u>\$ 20,303,846</u>	<u>\$ 19,888,404</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Functional Expenses
For the year ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Program related investments:			
Loan loss provision (recovery)	\$ (98,394)	\$ -	\$ (98,394)
Bad debt expense	(105,966)	-	(105,966)
Operating Expenses:			
Salaries and wages	367,535	204,358	571,893
Fringe benefits	70,878	66,065	136,943
Payroll taxes / fees	31,452	16,964	48,416
Training	14,065	5,647	19,712
Recruiting	15,048	-	15,048
	<u>498,978</u>	<u>293,034</u>	<u>792,012</u>
Rent	53,840	13,489	67,329
Property taxes	5,931	1,576	7,507
Building maintenance	4,068	15,004	19,072
Property insurance	2,821	750	3,571
	<u>66,660</u>	<u>30,819</u>	<u>97,479</u>
Board expense	81	3,675	3,756
Dues and publications	11,640	2,910	14,550
Depreciation	152,660	6,593	159,253
Interest expense	-	15,710	15,710
Marketing	49,902	11,305	61,207
Office supplies	20,699	5,175	25,874
Audit	-	15,050	15,050
Legal	22,651	5,750	28,401
Due diligence	1,839	-	1,839
Financial programs	92,596	-	92,596
Education programs	68,483	-	68,483
Financial system support	-	3,121	3,121
Contractual services	-	3,150	3,150
Printing and postage	4,700	1,175	5,875
Records storage & management	-	714	714
Telephone	3,670	12,778	16,448
Travel	38,408	3,966	42,374
MIS support / web hosting	11,534	3,845	15,379
Liability insurance	5,906	4,967	10,873
Income taxes	-	79	79
Miscellaneous	92	2,357	2,449
	<u>484,861</u>	<u>102,320</u>	<u>587,181</u>
TOTAL OPERATING EXPENSES	<u>1,050,499</u>	<u>426,173</u>	<u>1,476,672</u>
TOTALS	<u>\$ 846,139</u>	<u>\$ 426,173</u>	<u>\$ 1,272,312</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Functional Expenses
For the year ended December 31, 2018

	Program Services	Management and General	Total
Program related investments:			
Loan loss provision (recovery)	\$ (64,142)	\$ -	\$ (64,142)
Bad debt expense	(84,220)	-	(84,220)
Operating Expenses:			
Salaries and wages	417,473	160,727	578,200
Fringe benefits	69,102	55,056	124,158
Payroll taxes / fees	39,337	17,190	56,527
Training	12,086	2,931	15,017
Recruiting	4,312	-	4,312
	<u>542,310</u>	<u>235,904</u>	<u>778,214</u>
Rent	53,487	12,875	66,362
Property taxes	5,596	1,488	7,084
Building maintenance	10,031	2,299	12,330
Property insurance	3,427	911	4,338
	<u>72,541</u>	<u>17,573</u>	<u>90,114</u>
Board stipends	600	-	600
Board expense	54	586	640
Director recruitment	-	3,011	3,011
Dues and publications	9,023	2,256	11,279
Depreciation	141,621	9,457	151,078
Marketing	68,587	16,198	84,785
Office supplies	20,473	5,117	25,590
Audit	-	11,250	11,250
Legal	26,649	11,627	38,276
Due diligence	1,515	-	1,515
Financial programs	181,549	-	181,549
Education programs	77,877	-	77,877
Financial system support	-	5,155	5,155
Contractual services	-	80	80
Printing and postage	4,760	1,130	5,890
Telephone	4,311	11,175	15,486
Travel	37,614	7,256	44,870
MIS support / web hosting	21,985	7,328	29,313
Liability insurance	5,594	4,675	10,269
Income taxes	-	110	110
Miscellaneous	31	727	758
	<u>602,243</u>	<u>97,138</u>	<u>699,381</u>
TOTAL OPERATING EXPENSES	<u>1,217,094</u>	<u>350,615</u>	<u>1,567,709</u>
TOTALS	<u>\$ 1,068,732</u>	<u>\$ 350,615</u>	<u>\$ 1,419,347</u>

See accompanying notes to financial statements.

Sustainable Energy Fund
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 415,442	\$ (1,168,710)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	159,253	151,078
Provision for loan losses (recoveries)	(98,394)	(64,142)
Provision for bad debts (recoveries)	(105,966)	(44,220)
Net realized and unrealized (gains) losses on investments	(947,241)	535,829
Equity in (income) loss of investee	139,065	85,673
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	184,588	57,387
Prepaid expenses and deposits	3,448	237
Inventory	1,025	(2,012)
Accounts payable	(15,538)	57,789
Accrued expenses and deferred revenue	(66,800)	4,878
Accrued salaries and benefits	(8,536)	26,555
Deferred ESA income	(25,834)	(25,834)
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(365,488)</u>	<u>(385,492)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(4,318,685)	(478,185)
Net (purchase) sale of investments	866,016	958,528
Investment in National Energy Improvement Fund, LLC	500	(500,000)
Issuance of program related loans receivable	(1,284,800)	(6,186,762)
Repayments of program related loans receivable	3,476,982	6,397,821
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,259,987)</u>	<u>191,402</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in line of credit	1,640,770	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,640,770</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,295	(194,090)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>168,242</u>	<u>362,332</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 183,537</u>	<u>\$ 168,242</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	\$ 79	\$ 110
Interest	8,783	-

See accompanying notes to financial statements.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 1 – Nature of Organization

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

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of Green Connexions, Inc., a for profit wholly owned subsidiary. All material intercompany balances and transactions have been eliminated. Green Connexions, Inc. was incorporated as a C Corporation in December, 2005. Green Connexions, Inc. owns a 100% interest in Sustainable Energy Systems, LLC.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting

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

Basis of Presentation

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

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

Sustainable Energy Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Revenue Recognition

Program Loans

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

Energy Savings Agreements

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

Cash and Cash Equivalents

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

Donated Services

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

Sustainable Energy Fund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in Marketable Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Program Related Investments

Loans

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

Allowance for Loan Losses

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

Investment in National Energy Improvement Fund, LLC

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

Concentration of Credit and Market Risk

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

Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers and investees who are predominately located in Pennsylvania and dedicated to the use of renewable energy, clean energy technology, energy efficiency, energy conservation, and education. Consequently, the ability to realize the amounts may be affected by economic and political fluctuations in the power industry in this geographic region. The Fund performs ongoing credit evaluations and reserves for estimated and known uncollectables.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets of three to 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.

Allocation of Functional Expenses

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

Advertising Costs

Advertising costs are expensed as incurred.

Sustainable Energy Fund

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Financial Reporting

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 and have been implemented in these 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, 2021. 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 and have been implemented in these 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, 2018 and have been implemented in these financial statements.

In August 2018, the FASB issued *Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820)*. This Standard provides guidance for entities to make disclosures about recurring or nonrecurring fair value measurements. 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.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2018 in order for them to conform to the current year's presentation.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

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, 2019				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash management funds	\$ 67,717	\$ -	\$ -	\$ 67,717
U.S. Government obligations	3,659,870	-	-	3,659,870
Municipal bonds	207,146	-	-	207,146
Equity securities	3,412,971	-	-	3,412,971
Certificates of deposit	1,366,618	-	-	1,366,618
TOTAL ASSETS AT FAIR VALUE	\$ 8,714,322	\$ -	\$ -	\$ 8,714,322

Assets at Fair Value as of December 31, 2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash management funds	\$ 278,459	\$ -	\$ -	\$ 278,459
U.S. Government obligations	3,294,636	-	-	3,294,636
Municipal bonds	305,940	-	-	305,940
Equity securities	3,963,715	-	-	3,963,715
Certificates of deposit	790,347	-	-	790,347
TOTAL ASSETS AT FAIR VALUE	\$ 8,633,097	\$ -	\$ -	\$ 8,633,097

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

NOTE 4 – Investments

Investments are managed by professional investment managers. The investment managers are subject to the Fund's investment policies which contain objectives, guidelines and restrictions designed to complement the Fund's activities and mission. Investments at fair value at December 31 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash management funds	\$ 67,717	\$ 278,459
U.S. government obligations	3,659,870	3,294,636
Municipal bonds	207,146	305,940
Equity securities	3,412,971	3,963,715
Certificates of deposit	<u>1,366,618</u>	<u>790,347</u>
	<u>\$ 8,714,322</u>	<u>\$ 8,633,097</u>

Investment return is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 183,762	\$ 205,976
Net realized and unrealized gains (losses) on investments	<u>947,241</u>	<u>(535,829)</u>
	1,131,003	(329,853)
Less: Investment advisory and custodian fees	<u>(54,657)</u>	<u>(56,746)</u>
TOTAL INVESTMENT RETURN	<u><u>\$ 1,076,346</u></u>	<u><u>\$ (386,599)</u></u>

Sustainable Energy Fund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 5 – Program Related Investments / Loans Receivable

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

	<u>2019</u>	<u>2018</u>
Loans:		
Londonderry School - refinanced in May 2016 - due in monthly installments of \$2,525, including interest at 6.25%, based on a 173 month amortization schedule, balloon payment due June 2021	\$ 237,276	\$ 252,228
Juniata County School District - due in monthly installments of \$5,736 including interest at 2%, due November 2020	62,470	123,806
Forest City School District - due in monthly installments of \$1,470 including interest at 2%, due June 2021	26,047	42,980
Phalanx Associates - refinanced in February 2017 - due in quarterly installments of \$21,331 including interest at 8%, due February 2020	13,942	94,103
Evergreen Road Associates - refinanced in February 2017, due in quarterly installments of \$9,946 including interest at 8%, due May 2019	-	12,547
Radio Road Associates - refinanced in February 2018, due in quarterly installments of \$11,063 including interest at 8%, due February 2020	3,615	45,464
Jewish Home of Greater Harrisburg - due in monthly installments of \$1,257 principal only, due February 2019	-	2,515
Richard Anzivino - due in monthly installments of \$275 including interest at 8.25%, due April 2019	-	1,079
Kimmel Center, Inc. - due in monthly installments of \$1,500 principal only, due May 2019	-	7,500
Youth Advocate Programs, Inc. - due in monthly installments of \$559 principal only, due August 2019	-	4,474
Susque-View Home, Inc. - due in monthly installments of \$1,500 principal only, due October 2019	-	15,000
Jewish Federation of Greater Philadelphia - due in monthly installments of \$1,417 principal only, due June 2020	8,500	25,500

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The Kingsley Association - due in monthly installments of \$1,450 principal only, due June 2020	8,700	26,100
Bridge Five Condominium Association, Inc. - due in monthly installments of \$976 including interest at 4.00%, due June 2020	5,788	17,025
Colonial Volkswagon, Inc. - due in monthly installments of \$672 including interest at 4.00%, due August 2020	5,298	12,985
Indian Springs Sawmill - due in monthly installments of \$1,456 including interest at 4.00%, due May 2021	24,001	40,143
J.L. Freed & Sons, Inc. - due in monthly installments of \$965 including at 4.00%, due December 2020	-	6,873
PA Leadership Charter School - due in monthly installments of \$3,956 including interest at 4.00%, due June 2019	-	23,463
Laura Blau & Paul Thompson - due in monthly installments of \$2,560 including interest at 5.00%, due July 2022	-	332,233
TBJ, Inc. - due in monthly installments of \$683 including interest at 4.00%, due May 2022	-	26,143
1952 Bryn Mawr Avenue RH, LLC - due in monthly installments of \$1,075 including interest at 6.00%, due June 2027	-	148,028
Cherry Hill - due in monthly installments of \$5,483 including interest at 6.20% less a monthly servicing fee, due February 2022	501,887	537,437
Chandler Hall - due in monthly installments of \$1,979 including interest at 6.25% less a monthly servicing fee, due October 2022	191,802	203,865
Pitcaim Building - due in monthly installments of \$542 including interest at 4.00% less a monthly servicing fee, due October 2022	45,774	50,624
Maplewood Virginia, LLP - due in monthly installments of \$1,737 including interest at 6.50% less a monthly servicing fee, due February 2023	179,787	189,174
The Racquet Club of Philadelphia - due in monthly installments of \$1,152 including interest at 6.50% less a monthly servicing fee, due February 2023	114,005	120,569
Leading Age - due in monthly installments of \$680 including interest at 6.50% less a monthly servicing fee, due February 2023	66,732	70,652
JCC Metrowest - due in monthly installments of \$4,562 including interest at 5.37% less a monthly servicing fee, due January 2020	17,552	70,285

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Cast Iron Building - due in monthly installments of \$777 including interest at 6.64% less a monthly servicing fee, due January 2024	66,826	71,545
Kobernich Anchin - due in monthly installments of \$6,029 including interest at 6.64% less a monthly servicing fee, due January 2024	392,751	437,404
Forest Hills PPA, LLC - due in monthly installments of \$1,825 including interest at 5.25%, due December 2024	254,735	263,029
Gardner's Mattress & More - due in monthly installments of \$224 including interest at 5.00%, due July 2022	6,294	8,599
CAN DO, Inc. - due in monthly installments of \$2,762 including interest at 4.00%, due March 2022	-	98,325
Pike County Public Library - due in monthly installments of \$509 including interest at 4.00%, due August 2023	20,815	25,983
Ursinus College - due in monthly installments principal and interest payments of 4.00% on outstanding principal balance, due March 2024	1,296,722	395,038
SolarSense PA II PSU, LLC - due in monthly installments of \$7,397 including interest at 4.00%, with a balloon payment due January 2026	954,549	1,000,000
Community Energy Solar, LLC - 15 monthly interest only payments at 6.5% on outstanding principal, balloon payment due February 2020	2,385,600	4,460,400
Ultimate Car Wash and Lube, LLC - due in monthly installments of \$248 including interest at 6.00%, due May 2023	9,172	-
CIMA Network, Inc. - due in monthly installments of \$685 including interest at 5.50%, due September 2024	34,305	-
Mr. Wizard Car Wash, LLC - due in monthly installments of \$1,859 including interest at 6.50%, due September 2024	90,946	-
Tropical Stone, LLC - due in monthly installments of \$879 including interest at 4.50%, due September 2024	<u>45,045</u>	<u>-</u>
	7,070,936	9,263,118
Less: Allowance for Loan Losses	<u>(209,610)</u>	<u>(308,004)</u>
TOTAL LOANS	<u>\$ 6,861,326</u>	<u>\$ 8,955,114</u>

Sustainable Energy Fund
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Activity in the allowance for loan losses for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Balance, January 1	\$ 308,004	\$ 372,146
Provision charged to program activities	-	-
Loans charged off	-	-
Recoveries	<u>(98,394)</u>	<u>(64,142)</u>
Balance, December 31	<u>\$ 209,610</u>	<u>\$ 308,004</u>

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

NOTE 6 – Investment in National Energy Improvement Fund, LLC

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

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

	<u>2019</u>	<u>2018</u>
Balance, January 1	\$ 414,327	\$ -
Investment acquired (disposed) during the year	(500)	500,000
Equity in investee's net (loss) for the year ended December 31	<u>(139,065)</u>	<u>(85,673)</u>
Balance, December 31	<u>\$ 274,762</u>	<u>\$ 414,327</u>

NOTE 7 – Property, Plant and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 423,531	\$ 423,531
Net Zero Building	4,596,510	386,865
Furniture	23,508	23,508
Office equipment	238,236	129,195
NESA equipment	1,514,642	1,514,642
SES equipment	<u>83,767</u>	<u>83,767</u>
	6,880,194	2,561,508
Less: Accumulated depreciation	<u>(565,456)</u>	<u>(406,203)</u>
	<u>\$ 6,314,738</u>	<u>\$ 2,155,305</u>

Depreciation expense amounted to \$159,253 and \$151,078 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 – Line of Credit

During 2019, the Fund entered into a \$2,000,000 line of credit agreement with a local financial institution. The line of credit is secured by a portion of the Fund's investment portfolio with a reported fair market value in the amount of \$3,028,204. The line of credit bears interest at the prime interest rate (4.75% at December 31, 2019). Interest payments on the outstanding balance are due monthly, with payment of all outstanding principal plus all accrued unpaid interest due on May 1, 2020. The Fund had an outstanding balance of \$1,640,770 on this line of credit at December 31, 2019.

Sustainable Energy Fund
Notes to Consolidated Financial Statements
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During 2019, the Fund entered into a \$182,083 letter of credit agreement with a local financial institution. A certificate of deposit in the amount of \$200,000 has been pledged as collateral for the letter of credit. The letter of credit bears interest at 3 percentage points over the prime interest rate (4.75% at December 31, 2019). Interest payments on the outstanding balance are due monthly, with payment of all outstanding principal due on demand. There was no outstanding balance on this letter of credit at December 31, 2019.

NOTE 9 – 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; the second renewal term expired April 30, 2019. The third renewal term, which would expire on April 30, 2020, was extended until May 30, 2020. Future minimum lease payments are:

Years ended December 31:		
2020	\$	25,935

Total rent charged to expense under the leases was \$67,329 and \$66,362 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – Retirement Plan

The Fund has a defined contribution retirement plan (the Plan) covering all full-time employees having attained 21 years of age with three months of service. The Plan is a “safe harbor” 401(k) Plan in which the Fund makes a non-elective contribution to the Plan each year equal to 3% of all participants’ compensation. In addition, the Fund elected to make a discretionary contribution of up to 1.5% of qualifying salaries for the years ended December 31, 2019 and 2018. Total employer contributions amounted to \$22,820 and \$19,059 for the years ended December 31, 2019 and 2018, respectively, and are reported as part of employee benefits in the statement of functional expenses.

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

The Fund maintains cash balances at various financial institutions in Allentown, Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 in the aggregate. None of the Fund's cash balances exceeded the \$250,000 limit at December 31, 2019 or 2018.

NOTE 12 – Income Taxes

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

PP&L Sustainable Energy Fund is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Code as other than a private foundation. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending June 30, 2017 and December 31, 2017 and 2018 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, 2019, there is a net operating loss carryforward available of \$374,906. The years ending June 30, 2017 and December 31, 2017 and 2018 are still subject to examination. Sustainable Energy Systems LLC, which is fully owned by Green Connexions, Inc., incurred a state income tax expense of \$79 in 2019 and \$110 in 2018.

NOTE 13 – Related Parties

The Fund executed an agreement with a company to provide project management services related to the construction of its Net Zero building. The Company's managing principal is also a member of the Fund's board of directors. Total estimated costs of the agreement are \$141,261, and total costs incurred through December 31, 2019 amounted to \$103,959.

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

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 183,537	\$ 168,242
Investments	<u>5,486,118</u>	<u>8,633,097</u>
	<u>\$ 5,669,655</u>	<u>\$ 8,801,339</u>

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

NOTE 15 – Subsequent Events

Subsequent to December 31, 2019, the Fund executed a commercial mortgage in the amount of \$4,000,000 from a local financial institution to provide the permanent financing for the Net Zero building. The mortgage is collateralized by a lien and assignment of rents and leases on the Net Zero building and an assignment of a portion of the Fund's investment portfolio with a reported fair market value in the amount of \$3,028,204. The Fund also entered into an interest rate swap agreement with regards to this mortgage.

Additionally, the Fund obtained an unsecured loan in the amount of \$107,500 from a local financial institution through the Small Business Administration's Paycheck Protection Program.

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

The Fund has evaluated subsequent events through May 20, 2020, the date on which the financial statements were available to be issued. Other than those events disclosed above, no subsequent events have occurred since December 31, 2019 that would require recognition or disclosure in the accompanying financial statements.