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

## ANNUAL FINANCIAL STATEMENTS

## DECEMBER 31, 2020 AND 2019

# Sustainable Energy Fund
**(a Not-for-Profit Corporation)**
**Table of Contents**
**December 31, 2020 and 2019**

J.H. Williams & Co., LLC
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 consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**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.

www.jhwilliamscpa.com
230 Wyoming Avenue • 2nd Floor • Kingston, Pennsylvania 18704
Tel: 570 288 3651 • Fax: 570 288 6106

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, 2020 and 2019, 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., LLC*

May 19, 2021

# Sustainable Energy Fund
## Consolidated Statements of Financial Position
## December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 538,203 | $ 183,537 |
| Accounts receivable | 15,361 | 2,318 |
| Inventory | 967 | 2,365 |
| Investments (Notes 3 & 4) | 6,529,693 | 8,714,322 |
| Program related loans receivable, net (Note 5) | 9,487,769 | 6,861,326 |
| Investment in National Energy Improvement Fund, LLC (Note 6) | 150,844 | 274,762 |
| Property, plant and equipment, net (Note 7) | 7,323,200 | 6,314,738 |
| Prepaid expense and deposits | 39,670 | 30,677 |
| | $ 24,085,707 | $ 22,384,045 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable | $ 112,999 | $ 56,069 |
| Accrued expense and deferred revenue | 50,076 | 30,765 |
| Accrued salary and benefits | 53,768 | 54,678 |
| Line of credit | - | 1,640,770 |
| Deferred ESA income | 272,084 | 297,917 |
| Mortgage loan payable | 3,925,081 | - |
| TOTAL LIABILITIES | 4,414,008 | 2,080,199 |
| NET ASSETS | | |
| Net assets without donor restrictions | 19,671,699 | 20,303,846 |
| | $ 24,085,707 | $ 22,384,045 |

See accompanying notes to financial statements.

# Sustainable Energy Fund
## Consolidated Statements of Activities
## For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| REVENUES AND GAINS | | |
| Grant revenue | $ 107,500 | $ 12,500 |
| Project revenue | 200 | 2,400 |
| Interest income - operating and money market | 2,438 | 351 |
| Investment return, net | 512,136 | 1,076,346 |
| Equity in (loss) of investee | (123,918) | (139,065) |
| Interest - program loans | 386,864 | 453,395 |
| Other income - program loans | 41,589 | 59,942 |
| ESA income | 154,332 | 159,655 |
| C-PACE income | 75,000 | - |
| Education programs revenue | 394 | 31,200 |
| Donation income | 20,000 | 19,576 |
| Miscellaneous revenue | - | 11,454 |
| TOTAL REVENUES AND GAINS | 1,176,535 | 1,687,754 |
| EXPENSES | | |
| Program services: | | |
| Provision for loan losses (recoveries) | 58,836 | (98,394) |
| Provision for bad debts (recoveries) | 1,060 | (105,966) |
| Operating expenses | 1,131,230 | 1,050,499 |
| | 1,191,126 | 846,139 |
| Management and general | 617,270 | 426,173 |
| TOTAL EXPENSES | 1,808,396 | 1,272,312 |
| Loss on disposal of assets | 286 | - |
| TOTAL EXPENSES AND LOSSES | 1,808,682 | 1,272,312 |
| INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS | (632,147) | 415,442 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING | 20,303,846 | 19,888,404 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, ENDING | $ 19,671,699 | $ 20,303,846 |

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

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

| | Program Services | Management and General | Total |
|---|---|---|---|
| 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 |
| | 498,978 | 293,034 | 792,012 |
| 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 |
| | 66,660 | 30,819 | 97,479 |
| 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 |
| | 484,861 | 102,320 | 587,181 |
| TOTAL OPERATING EXPENSES | 1,050,499 | 426,173 | 1,476,672 |
| TOTALS | $ 846,139 | $ 426,173 | $ 1,272,312 |

See accompanying notes to financial statements.

# Sustainable Energy Fund
## Consolidated Statements of Cash Flows
## For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | $ (632,147) | $ 415,442 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation | 304,620 | 159,253 |
| Provision for loan losses (recoveries) | 58,836 | (98,394) |
| Provision for bad debts (recoveries) | 1,060 | (105,966) |
| Loss on disposal of assets | 286 | - |
| Net realized and unrealized (gains) losses on investments | (385,954) | (947,241) |
| Equity in loss of investee | 123,918 | 139,065 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | |
| Accounts receivable | (14,103) | 184,588 |
| Prepaid expenses and deposits | (8,993) | 3,448 |
| Inventory | 1,398 | 1,025 |
| Accounts payable | (14,930) | (15,538) |
| Accrued expenses and deferred revenue | 19,311 | (66,800) |
| Accrued salaries and benefits | (910) | (8,536) |
| Deferred ESA income | (25,833) | (25,834) |
| NET CASH (USED IN) OPERATING ACTIVITIES | (573,441) | (365,488) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant, and equipment | (1,241,954) | (4,318,685) |
| Net sale of investments | 2,570,583 | 866,016 |
| Investment in National Energy Improvement Fund, LLC | - | 500 |
| Issuance of program related loans receivable | (9,878,556) | (1,284,800) |
| Repayments of program related loans receivable | 7,193,278 | 3,476,982 |
| Proceeds - sale of property, plant and equipment | 445 | - |
| NET CASH (USED IN) INVESTING ACTIVITIES | (1,356,204) | (1,259,987) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in line of credit | - | 1,640,770 |
| Proceeds from issuance of long-term debt | 2,359,230 | - |
| Principal payments on long-term debt | (74,919) | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,284,311 | 1,640,770 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 354,666 | 15,295 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 183,537 | 168,242 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 538,203 | $ 183,537 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Income taxes | $ 109 | $ 79 |
| Interest | 130,824 | 8,783 |
| Noncash investing and financing activities: | | |
| Property, plant, and equipment funded through accounts payable | 71,860 | - |
| Payoff of line of credit through issuance of long-term debt | 1,640,770 | - |

See accompanying notes to financial statements.

## 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.

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

## Revenue Recognition

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

Program Loans

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

Energy Savings Agreements

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

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

### Cash and Cash Equivalents

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

### Donated Services

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

### Estimates

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

### Investments in Marketable Securities

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

### Program Related Investments

#### Loans

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

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 forty 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.

### Financial Reporting

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

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

## NOTE 3 – Fair Values of Financial Instruments

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

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, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash management funds | $ 119,592 | $ - | $ - | $ 119,592 |
| U.S. Government obligations | 2,448,273 | - | - | 2,448,273 |
| Corporate bonds | 285,165 | - | - | 285,165 |
| Municipal bonds | 840,877 | - | - | 840,877 |
| Equity securities | 2,480,948 | - | - | 2,480,948 |
| Certificates of deposit | 354,838 | - | - | 354,838 |
| TOTAL ASSETS AT FAIR VALUE | $ 6,529,693 | $ - | $ - | $ 6,529,693 |

| | Assets at Fair Value as of December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| 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 |

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:

| | 2020 | 2019 |
|---|---|---|
| Cash management funds | $ 119,592 | $ 67,717 |
| U.S. government obligations | 2,448,273 | 3,659,870 |
| Corporate bonds | 285,165 | - |
| Municipal bonds | 840,877 | 207,146 |
| Equity securities | 2,480,948 | 3,412,971 |
| Certificates of deposit | 354,838 | 1,366,618 |
| | $ 6,529,693 | $ 8,714,322 |

Investment return is summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Interest and dividend income | $ 180,762 | $ 183,762 |
| Net realized and unrealized gains (losses) on investments | 385,954 | 947,241 |
| | 566,716 | 1,131,003 |
| Less: Investment advisory and custodian fees | (54,580) | (54,657) |
| TOTAL INVESTMENT RETURN | $ 512,136 | $ 1,076,346 |

## 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.

| | 2020 | 2019 |
|---|---|---|
| Loans: | | |
| Londonderry School - refinanced in May 2016 - due in monthly installments of $2,525, including interest at 6.25%, based on a 173 month amortization schedule, balloon payment due June 2021 | $ 225,434 | $ 237,276 |
| Juniata County School District - due in monthly installments of $5,736 including interest at 2%, due November 2020 | - | 62,470 |
| Forest City School District - due in monthly installments of $1,470 including interest at 2%, due June 2021 | 8,776 | 26,047 |
| Phalanx Associates - refinanced in February 2017 - due in quarterly installments of $21,331 including interest at 8%, due February 2020 | - | 13,942 |
| Radio Road Associates - refinanced in February 2018, due in quarterly installments of $11,063 including interest at 8%, due February 2020 | - | 3,615 |
| Jewish Federation of Greater Philadelphia - due in monthly installments of $1,417 principal only, due June 2020 | - | 8,500 |
| The Kingsley Association - due in monthly installments of $1,450 principal only, due June 2020 | - | 8,700 |
| Bridge Five Condominium Association, Inc. - due in monthly installments of $976 including interest at 4.00%, due June 2020 | - | 5,788 |
| Colonial Volkswagon, Inc. - due in monthly installments of $672 including interest at 4.00%, due August 2020 | - | 5,298 |
| Indian Springs Sawmill - due in monthly installments of $1,456 including interest at 4.00%, due May 2021 | 7,201 | 24,001 |
| Cherry Hill - due in monthly installments of $5,483 including interest at 6.20% less a monthly servicing fee, due February 2022 | - | 501,887 |

| | | |
|---|---|---|
| Chandler Hall - due in monthly installments of $1,979 including interest at 6.25% less a monthly servicing fee, due October 2022 | 179,788 | 191,802 |
| Pitcaim Building - due in monthly installments of $542 including interest at 4.00% less a monthly servicing fee, due October 2022 | 41,051 | 45,774 |
| Maplewood Virginia, LLP - due in monthly installments of $1,737 including interest at 6.50% less a monthly servicing fee, due February 2023 | 170,419 | 179,787 |
| 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 | 107,451 | 114,005 |
| Leading Age - due in monthly installments of $680 including interest at 6.50% less a monthly servicing fee, due February 2023 | 62,819 | 66,732 |
| JCC Metrowest - due in monthly installments of $4,562 including interest at 5.37% less a monthly servicing fee, due January 2020 | - | 17,552 |
| Cast Iron Building - due in monthly installments of $777 including interest at 6.64% less a monthly servicing fee, due January 2024 | 61,782 | 66,826 |
| Kobernick Anchin - due in monthly installments of $6,029 including interest at 6.64% less a monthly servicing fee, due January 2024 | 345,042 | 392,751 |
| Forest Hills PPA, LLC - due in monthly installments of $1,825 including interest at 5.25%, due December 2024 | 245,995 | 254,735 |
| Gardner's Mattress & More - due in monthly installments of $224 including interest at 5.00%, due July 2022 | 3,870 | 6,294 |
| Pike County Public Library - due in monthly installments of $509 including interest at 4.00%, due August 2023 | 15,437 | 20,815 |
| Ursinus College - due in monthly installments principal and interest payments of 4.00% on outstanding principal balance, due December 2024 | 1,189,088 | 1,296,722 |
| SolarSense PA II PSU, LLC - due in monthly installments of $7,397 including interest at 4.00%, with a balloon payment due December 2025 | 903,030 | 954,549 |
| Community Energy Solar, LLC - 15 monthly interest only payments at 6.50% on outstanding principal, balloon payment due February 2020 | - | 2,385,600 |
| Ultimate Car Wash and Lube, LLC - due in monthly installments of $248 including interest at 6.00%, due May 2023 | 6,679 | 9,172 |

| | | |
|---|---|---|
| CIMA Network, Inc. - due in monthly installments of $685 including interest at 5.50%, due September 2024 | 27,807 | 34,305 |
| Mr. Wizard Car Wash, LLC - due in monthly installments of $1,859 including interest at 6.50%, due September 2024 | 74,054 | 90,946 |
| Tropical Stone, LLC - due in monthly installments of $879 including interest at 4.50%, due January 2025 | 39,288 | 45,045 |
| Community Energy Solar, LLC - 18 monthly interest only payments at 6.50% on outstanding principal, balloon payment due September 2021 | 4,832,000 | - |
| Community Energy Solar, LLC - 29 monthly interest only payments at 6.50% on outstanding principal, balloon payment due April 2023 | 1,209,204 | - |
| | 9,756,215 | 7,070,936 |
| Less: Allowance for Loan Losses | (268,446) | (209,610) |
| TOTAL LOANS | $ 9,487,769 | $ 6,861,326 |

Activity in the allowance for loan losses for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance, January 1 | $ 209,610 | $ 308,004 |
| Provision charged to program activities | 58,836 | - |
| Loans charged off | - | - |
| Recoveries | - | (98,394) |
| Balance, December 31 | $ 268,446 | $ 209,610 |

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

## NOTE 6 – Investment in National Energy Improvement Fund, LLC

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

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

| | 2020 | 2019 |
|---|---|---|
| Balance, January 1 | $ 274,762 | $ 414,327 |
| Investment acquired (disposed) during the year | - | (500) |
| Equity in investee's net (loss) for the year ended December 31 | (123,918) | (139,065) |
| Balance, December 31 | $ 150,844 | $ 274,762 |

## NOTE 7 – Property, Plant and Equipment

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

| | 2020 | 2019 |
|---|---|---|
| Land | $ 625,223 | $ 423,531 |
| Net Zero Building | 5,605,823 | 4,596,510 |
| Furniture | 13,971 | 23,508 |
| Office equipment | 287,484 | 238,236 |
| NESA equipment | 1,514,642 | 1,514,642 |
| SES equipment | 83,767 | 83,767 |
| | 8,130,910 | 6,880,194 |
| Less: Accumulated depreciation | (807,710) | (565,456) |
| | $ 7,323,200 | $ 6,314,738 |

Depreciation expense amounted to $304,620 and $159,253 for the years ended December 31, 2020 and 2019, respectively.

## NOTE 8 – Long Term Debt

During 2019, the Fund entered into a $182,083 letter of credit agreement with a local financial institution. A certificate of deposit in the amount of $200,000 has been pledged as collateral for the letter of credit. The letter of credit bears interest at 3 percentage points over the prime interest rate (6.25% at December 31, 2020). 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, 2020 or 2019.

During 2019, the Fund entered into a $2,000,000 line of credit agreement with a local financial institution. In February 2020, the Fund executed a commercial mortgage in the amount of $4 million to provide permanent financing for the Net Zero building as well as pay off the outstanding balance on the line of credit. The mortgage is secured by a lien on the Net Zero building with a book value of $6,104,077 at December 31, 2020, 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 $3,101,446. The mortgage bears interest at a fixed rate of 3.56%. The Fund also entered into an interest rate swap agreement with regards to this mortgage. The swap agreement provides for a monthly settlement between the Fund and the financial institution based on the 30-day London Interbank Offered Rate (LIBOR) plus 210 basis points. Loan terms provide for monthly principal payments in amounts ranging from $8,324 to $13,795 plus accrued interest through February 2035 at which time any unpaid principal and accrued interest become due. The balance of the loan as of December 31, 2020 amounted to $3,925,081.

Principal maturities of long-term debt as of December 31, 2020 are as follows:

| | |
|---|---|
| 2021 | $ 102,672 |
| 2022 | 106,483 |
| 2023 | 110,167 |
| 2024 | 114,435 |
| 2025 | 118,772 |
| Thereafter | 3,372,552 |
| | $ 3,925,081 |

## NOTE 9 – Paycheck Protection Program Loan

In April 2020, the Fund received loan proceeds in the amount of $107,500 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the program.

The Fund has adopted FASB *Accounting Standards Codification* 958-605-55 and, in accordance with the ASC, the PPP proceeds were recognized and treated as a conditional contribution. The Fund determined, as of December 31, 2020, that all conditions for forgiveness of the loan had been met. Since the conditional contribution terms were met in the same period the contribution was received, the Fund has recognized the contribution in the Statement of Activities as an increase in net assets without donor restrictions.

On January 5, 2021, the loan was forgiven for the entirety of the principal and accrued interest.

## NOTE 10 – Operating Leases

The Fund leased its office facilities. The Fund entered into a two-year lease commencing on March 20, 2017 and ending April 30, 2019. The lease was renewed for another year to expire on April 30, 2020, but was extended until July 30, 2020 due to the COVID-19 pandemic.

Total rent charged to expense under the lease was $36,103 and $67,329 for the years ended December 31, 2020 and 2019, respectively.

## NOTE 11 – 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, 2020 and 2019. Total employer contributions amounted to $26,144 and $22,820 for the years ended December 31, 2020 and 2019, respectively, and are reported as part of employee benefits in the statement of functional expenses.

## NOTE 12 – Concentration of Credit Risk

The Fund maintains cash balances at various financial institutions in Allentown, Pennsylvania. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 in the aggregate. The Fund's cash balances on deposit, per bank records, in excess of insured limits totaled $218,661 and $0 at December 31, 2020 and 2019, respectively.

## NOTE 13 – Income Taxes

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

PP&L Sustainable Energy Fund is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Code as other than a private foundation. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2017, 2018, and 2019 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, 2020, there is a net operating loss carryforward available of $374,906. The years ending December 31, 2017, 2018, and 2019 are still subject to examination. Sustainable Energy Systems LLC, which is fully owned by Green Connexions, Inc., incurred a state income tax expense of $109 in 2020 and $79 in 2019.

## NOTE 14 – 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, 2020 amounted to $132,961.

## NOTE 15 – Contingencies

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

## NOTE 16 – 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:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 538,203 | $ 183,537 |
| Investments | 3,228,803 | 5,486,118 |
| | $ 3,767,006 | $ 5,669,655 |

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 17 – Subsequent Events

Subsequent to December 31, 2020, the Fund obtained an unsecured loan in the amount of $155,392 from a local financial institution through the Small Business Administration's Paycheck Protection Program.

The Fund has evaluated subsequent events through May 19, 2021, 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, 2020 that would require recognition or disclosure in the accompanying financial statements.