MAKING THE CASE FOR ENERGY EFFICIENCY TO HELP SOLVE ENERGY PROBLEMS
ANNUAL REPORT 2003
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*As of December 31, 2003*
Continuing to deliver, as it has throughout its 27-year history, the Alliance to Save Energy further built its reputation in 2003 as the source for timely, reliable, unbiased information — and action — on energy efficiency. Despite internal and external changes and challenges — notably the need for internal reorganization, a sluggish U.S. economy, and continued evolution of comprehensive energy legislation in the Congress — the Alliance solidified its leadership in the energy efficiency field. Challenges were met by the Alliance Board and our talented staff with ingenuity and a “can do” spirit that are evidenced in the accomplishments highlighted in this report.

The Alliance continued implementing energy- and money-saving projects in the U.S. and in developing countries on five continents. Through projects like the Efficient Windows Collaborative in the U.S. and the Energy Efficiency Industrial Partnership overseas, for example, the Alliance nurtured new markets for energy-efficient products and services.

Advocacy remained central to the Alliance’s mission in 2003 as it continued to press for policies to establish energy efficiency as a key component of a strong U.S. energy policy. Through work with policy-makers from the federal government to statehouses and city halls across the country, the Alliance educated policy and opinion leaders on the importance of energy efficiency — the quickest, cheapest, cleanest way to increase our nation’s energy supplies. And importantly, news coverage in national, regional, and local media in 2003 helped spread the Alliance’s energy-efficiency message to policy-makers and consumers alike.

The Alliance’s financial health remains impressive, allowing for growth in both the scope and caliber of initiatives to further energy efficiency in the years ahead. And we are looking forward. While this report focuses on 2003, we take this opportunity to mention that the Alliance is undergoing a significant transformation in 2004 under the leadership of new President Kateri Callahan and a reinvigorated Board of Directors.

The Board and senior staff of the Alliance are creating a new vision and organizational structure to assure that our shared commitment to advancing energy efficiency is realized through a vibrant, robust, and well-directed agenda that includes initiatives in our core areas of expertise: policy advocacy, research, communications and outreach, technology deployment, education, and market transformation and development.

Already, the Alliance has implemented a sweeping reorganization, establishing six major Practice Areas — Utilities and Buildings, Transportation, Municipal Services, Industry, Education, and Market Transformation — in place of the original National and International Programs Teams. Cross-cutting these practice areas are five Corporate Services: Policy, Communications and Marketing, Research and Analysis, Program Development, and Finance and Administration. These structural changes will underpin a strategic, five-year plan to further position the Alliance as one of the world’s premier energy-efficiency organizations. Through the advancement of energy efficiency, the Alliance will have meaningful impact on world energy consumption.

As evidenced in this report on 2003 activities and action, the Alliance to Save Energy truly is a moving force in energy — delivering savings to consumers, enhancing the economy, protecting the environment, and assuring enhanced national energy security. We’re proud of the Alliance’s track record, and we’re excited about the future.
In 2003, a year in which energy issues – and problems – made headlines, the Alliance to Save Energy made the case for energy efficiency as an essential part of the solution to energy challenges in six critical areas: household energy costs, short supplies and high prices for natural gas, electricity reliability, global climate change, federal energy management, and education.

The Alliance made many contributions in 2003: operating on-the-ground energy- and money-saving projects in the U.S. and on five continents; educating our children about energy efficiency; advocating for better state and national energy-efficiency policies and funding for programs and research; and recognizing the accomplishments of “Stars of Energy Efficiency” at our annual awards dinner. As always, our aim was to show how energy efficiency can meet any energy challenge and to clearly demonstrate why energy efficiency should be the foundation of U.S. energy policy.

While 2003 was a year of its own energy challenges, it also marked the 30th anniversary of the OPEC oil embargo, one of the nation’s greatest energy challenges. So it was only appropriate that Alliance co-founder Sen. Charles H. Percy, the highly respected member of the Senate Foreign Relations Committee at the time of the embargo, in 2003 penned an op-ed, “Energy Efficiency: The ‘Vaccine’ for Energy Crises,” which appeared in a dozen key newspapers around the country. With media interest high, the anniversary provided an opportunity for Alliance experts to discuss the 30-year contribution energy efficiency has made to our nation’s well-being on National Public Radio, CBS News Radio Network, and Scripps-Howard News Service.

In all its endeavors, the Alliance draws on members of our Board of Directors and Alliance Associates, a unique group of energy experts from the public and private sectors, who are invaluable partners in fulfilling the mission of promoting energy efficiency worldwide to benefit the economy, environment, and national security. One part of the Associates Program that really seems to be hitting the mark is the Policy Breakfast Series, such as the one featuring Alliance Vice-Chair Sen. Susan Collins (R-Maine) discussing “Challenges and Opportunities in the 108th Congress.” That event offered networking opportunities and a chance to get the “inside scoop” on the latest national and state energy policies, critical issues facing the energy-efficiency industry, and the Alliance’s own work.

With the mid-year departure of Alliance President David Nemtzow, who had served in that position for 10 years and now heads the New South Wales Energy Efficiency Office in Australia, the Alliance looks forward to even more success in 2004 under the new leadership of President Kateri A. Callahan, former president of the Electric Drive Transportation Association, who brings her strategic vision to the helm of this premier organization.
A Welcome to Our Partners in 2003
The Alliance is pleased to welcome the following new contributors that have made a commitment to promoting energy efficiency:

American Public Power Association
Aspen Systems Corporation
Barnstable County/Cape Light Compact
Berkshire Gas
ConEdison Solutions
GasNetworks®
Guardian Industries
ICF Consulting
NSTAR Electric and Gas Corporation

Thanks for the Strength of Your Commitment in 2003!
Without the generous financial support of Alliance Associates, much of the Alliance’s most important work would not be possible. The Alliance thanks all our 75 Associates, with a special thanks to those contributing at the Founder Level:

Andersen Corporation
BC Hydro
BP
Bonneville Power Administration
Cinergy Corporation
City of Austin/Austin Energy
Dewey Ballantine
Exelon Corporation
Fannie Mae Foundation
Johns Manville
New York State Energy Research and Development Authority
OSRAM SYLVANIA
Pacific Gas and Electric Company
Sempra Energy
Southern California Edison
The Home Depot
Washington Gas
Whirlpool Corporation

Getting in Print
Being recognized as a key source of accurate information about energy efficiency enhances the Alliance’s ability to communicate our message to the public through the media. 2003 was another successful year, with coverage by leading wire and news services – AP, Knight Ridder – and major national, regional, and local newspapers – The Washington Post, New York Times, Wall Street Journal, Los Angeles Times, Chicago Tribune, Philadelphia Inquirer, Atlanta Journal-Constitution, San Jose Mercury News, and Boston Globe.
After your mortgage, energy is usually the largest cost of home ownership. Making a home more energy-efficient lowers energy bills, makes housing more affordable, reduces pollution, and provides opportunities to direct financial resources to other key needs like education and retirement. Since 1977, the Alliance has led efforts to empower consumers to save money and reduce pollution through energy-efficiency improvements to their homes.

**REACHING CONSUMERS WITH THE ENERGY-EFFICIENCY MESSAGE**

In 2003, the Alliance's radio public service ad, *Smart People*, and the humorous *Energy Science Fair* television spot garnered almost $8 million in free broadcast airtime to reach millions of viewers. Additionally, cable channels, Navy and Marine bases, Lowe's home improvement stores, and numerous airports and doctors' offices joined in communicating the energy-efficiency message by airing our ads.

Energy Star, the government’s “Good Housekeeping Seal of Approval,” helps consumers identify the most energy-efficient products. In 2003, the Alliance undertook two consumer surveys to determine Energy Star’s effectiveness, among other things. The results: while nationwide recognition stands at a respectable 71 percent, we found that in New York State, where Governor Pataki has supported an aggressive media campaign, fully 90 percent of the state’s residents recognize the Energy Star label.
BUILDING A MARKET FOR ENERGY-EFFICIENT PRODUCTS

The Alliance promotes the development and adoption of strong energy-efficiency building codes and promotes the quicker adoption of new, widely applicable energy-efficiency technologies that can save consumers money on their home energy bills.

Through the Building Codes Assistance Project, the Alliance joined with the American Council for an Energy-Efficient Economy (ACEEE), Natural Resources Defense Council (NRDC), New York State Energy Research and Development Authority (NYSERDA), Texas State Energy Conservation Office, North American Insulation Manufacturers Association (NAIMA), and Responsible Energy Codes Alliance (RECA) to press for widespread adoption and effective implementation of the International Energy Conservation Code for residential construction and the ASHRAE Standard 90.1, which establishes energy-efficiency requirements for new commercial buildings.

Partnering with more than 130 organizations and businesses, the Efficient Windows Collaborative educates architects, builders, and consumers about how to choose from the wide range of available energy-efficient windows. Key members include Andersen Corporation, Cardinal Glass Industries, Guardian Industries, CertainTeed Corporation, The Home Depot, Sears, Midwest Energy Efficiency Alliance, and Pacific Gas and Electric. By the end of 2003, the Collaborative's website was welcoming 34,000 unique visitors every month; and we estimate that 8 million readers were reached with the energy-efficient windows message through media outlets.

The result of all this work? In 1997, Energy Star window sales were only 5 percent of the market. But by 2002, sales had skyrocketed to 35 percent, saving an estimated 4.2 trillion Btus. The Alliance also is bringing advanced window technology to the world’s most populous nation, China. By educating manufacturer and government representatives, the Alliance got agreement to test and label windows; we hope to expand a pilot project, underway in Guangzhou, nationwide.

In 2003, energy building codes were upgraded in New Mexico, Indiana, Michigan, 16 municipalities in northern Illinois, and Scottsdale, Ariz. Code advocacy testimony was given in Indiana, Maine, Pennsylvania, and Washington, D.C., and other support was provided in Arizona, Michigan, and Nebraska.

PROVIDING CONSUMERS WITH BETTER INCENTIVES

Financial incentives encourage people to invest in energy efficiency, so the Alliance is working with Congress to craft a set of federal tax credits and deductions for a wide range of energy-efficient technologies. While Congress did not pass an energy bill in 2003, the Alliance and our partners secured the inclusion of new tax incentives encouraging builders to construct more energy-efficient homes and encouraging homeowners to make energy-saving improvements. The Alliance is continuing to press for this key federal support, which can transform the marketplace toward a preference for “energy-stingy” products.

The Responsible Energy Codes Alliance (RECA), a coalition organized and led by the Alliance To Save Energy, is comprised of energy experts and representatives from building product manufacturers and trade associations. RECA’s mission is to encourage state and local communities to adopt the most energy-efficient building codes. Members include American Plastics Council, Johns Manville, Knauf Insulation, North American Insulation Manufacturers Association, and the Polyisocyanurate Insulation Manufacturers Association.
Throughout 2003, a shortage of natural gas — which is increasingly being used to fuel power plants, in addition to its traditional use in home heating and industry — caused consumer utility bills to spike sharply, and also had economic impacts such as the closure of many natural gas-intensive manufacturing concerns and the loss of jobs.

By June 2003, the U.S. Department of Energy and the National Petroleum Council (NPC) were sufficiently concerned to convene a Natural Gas Summit, chaired by Energy Secretary Spencer Abraham, to explore responses to the crisis. Alliance Acting Co-President Mark Hopkins delivered a key speech advocating the critical importance of energy efficiency in both short- and long-term solutions to the problem. In recognition of the need for a “balanced future” for natural gas, Secretary Abraham asked the Alliance to recommend energy-efficiency policy options, such as upgrading energy building codes and appliance standards and educating consumers about Energy Star, which the NPC incorporated in its final report on this important national issue.

We also moved quickly to do what we do best — provide unbiased information to the American people. Our integrated marketing communications campaign, which secured media coverage by Fox News Channel, The Washington Post, AP, Reuters, and UPI, and disseminated energy-saving ideas to help consumers, commercial building owners, and industrial managers reduce demand, helped supply and demand come into better balance over the summer and fall.

While the initial crisis was averted in 2003, the reality is that natural gas demand will outstrip domestic production, and prices likely will remain high in the future. In 2004 and beyond, the Alliance will focus efforts on enactment of policies to encourage a reduction in demand for natural gas and the deployment of energy-efficiency technologies and products that will assure “smart” use of this limited fuel resource.
ENERGY-EFFICIENT MANUFACTURING GROWS
BOTTOM LINE, JOBS, ECONOMY

While the Alliance is promoting strong policy action on natural gas, we are backed up by our real-world experience in implementing energy efficiency. Nowhere is this truer than in the industrial sector.

While industry is responsible for nearly one-third of the total energy used in the U.S., the Alliance's fieldwork has revealed that most companies still do not recognize the “bottom-line” financial benefits of energy efficiency to their business.

But firms that incorporate energy efficiency in their strategic planning can lower production costs and increase revenue, while at the same time reducing waste and lowering air pollution. Even more broadly, reducing energy costs can help our economy avoid such worst-case scenarios as worker layoffs, off-shore moves, and plant shut-downs that result from high production costs associated with the price of energy.

In partnership with the Department of Energy, the Alliance is highlighting the issue and giving corporate decision-makers the energy-efficiency tools they need.

BRINGING THE ENERGY-EFFICIENCY SOLUTION TO THOSE WHO NEED IT MOST

In the 1980s, the Alliance demonstrated how, through better application of energy efficiency, low-income weatherization programs could double energy savings at one-third less cost. Over the past few years, we have brought that experience to the problems in Eastern Europe.

While supplies of natural gas aren't dramatically constrained in Eastern Europe, the problem is massive energy waste and high costs due to antiquated energy systems — a legacy of old central planning systems. The Alliance is deploying energy efficiency to help solve this natural gas problem, too.

The Alliance's Municipal Network of Energy Efficiency helps district heating utilities in transitional countries institute reforms that will attract private investment. By sharing the experience of Czech, Polish, and Hungarian heating utilities — on topics ranging from accounting reforms, customer relations, weatherization, creation of energy service companies, and national policy reform — with their counterparts in Russia, Bulgaria, Moldova, Armenia, and Ukraine, we are helping the private sector address the problem with commercial solutions.

Looking to 2004, the Alliance's DOE-supported Powerful Savings consumer media campaign will help consumers reduce their energy use, while saving on their energy bills. The Alliance also is a partner in an effort to create a coalition of energy and environmental organizations and large natural gas consumers to promote comprehensive solutions to continuing natural gas supply and price difficulties.
Starting with the California blackouts in 2000 and 2001, questions were raised concerning the fragility and lack of investment in our electricity supply system. The August 2003 blackout in the Northeast and Midwest U.S. and Canada plunged 50 million into the dark and highlighted – to consumers and policy-makers alike – the urgent need for new thinking and action on the problem. This offered a new opportunity for the Alliance to promote energy efficiency.

The Alliance seized media, policy-maker, and public attention by responding immediately and providing the public with energy-efficiency steps for reducing electricity use. Though peak load didn’t cause the 2003 outages, the Alliance was able to make energy efficiency an important part of the story, securing coverage by Scripps Howard, CNN, Associated Press (story appeared in 120 newspapers), and Minnesota Public Radio, among others.

Following the 2003 blackout, Alliance Vice-Chair Sen. James Jeffords (I-Vt.) introduced legislation to improve electricity reliability by reducing demand. His bill would create a national Public Benefits Fund to support state and utility efficiency programs and establish an Energy Efficiency Performance Standard that would require electric utilities to meet a portion of their anticipated future demand through energy efficiency, as opposed to building more power plants.

With the support of our partners, the Alliance held two Policy Breakfasts to explore ideas for solving electricity reliability problems. One featured state energy directors from New York, Texas, and California; the other featured Federal Energy Regulatory Commission Chairman Pat Wood, who provided his thoughts and ideas for the future.

While energy efficiency alone won’t insure the efficiency of the national electric grid, it can play an important role. The Alliance is working on a range of policy and program initiatives designed to increase the rate of adoption of energy-efficiency practices and technologies that will contribute to improved electricity reliability.

**EFFICIENT APPLIANCES ARE A KEY ELEMENT**

The growing number of air conditioners and home and office appliances and equipment in our digital economy are significant factors in the increasing demand for electricity. One part of the solution is the Energy Star label, which guides consumers to purchase the most energy-efficient products. Energy Star branding is a vital energy-efficiency tool that the Alliance helps strengthen through multimedia campaigns. For three summers, the Alliance has worked with NYSERDA on successful electricity reliability “Keep Cool” campaigns in New York State. The Alliance also works to secure federal funding to support the EPA’s Energy Star Program, and we partner with the government, state energy offices, and the private sector to educate consumers about the Energy Star label.

Applying minimum energy-efficiency standards to a new range of appliances and equipment is another element of our reliability strategy. With our partners, the Alliance successfully secured inclusion of several new standards in pending federal energy legislation. Those standards await final congressional action.

In anticipation of eventual congressional action on pending energy legislation, the Alliance, through the Tax Incentive Assistance Project, is laying plans to help the Energy and Treasury Departments develop effective regulations to help taxpayers get maximum benefit from energy-efficiency tax incentives.

In addition to working at the federal level, the Alliance pressed for state action. In Maryland, even as we faced strong political resistance, we were successful in securing the passage of more stringent efficiency standards for air conditioners and other products. Increasingly, action on energy efficiency is coming at the state level, and the Alliance will continue to encourage and advocate policies and programs to advance energy efficiency.

**TACKLING GLOBAL EFFICIENCY ISSUES**

Energy-efficiency standards can benefit consumers worldwide. Such standards are particularly important in the developing world, where cheap, inefficient appliances that gobble up energy are flooding markets. As the world’s leader in developing efficiency standards for appliances, the U.S. can help governments around the world establish minimum efficiency standards that can reap huge energy and money savings. In Uruguay, for example, an initial analysis of three key appliances – incandescent lamps, water heaters, and refrigerators – revealed that standards could reduce electricity demand by 130 GWh per year and would save consumers $130 million over 10 years.
The Alliance, in partnership with the International Institute for Energy Conservation, Lawrence Berkeley National Laboratories, and the UN Department of Economic and Social Affairs, is participating in the Collaborative Labeling and Appliance Standards Program (CLASP) to help overseas governments put effective labeling and standards programs in place. In 2003, the Alliance conducted educational missions to Uruguay, Brazil, Albania, and South Africa to educate key stakeholders on the need for, and benefit of, energy-efficiency standards for appliances.

WATER UTILITIES – A NEW AND VIRTUALLY UNTAPPED OPPORTUNITY

Throughout the world, and even in the U.S., providing people with clean, affordable water is a vital issue. Water and sewage systems are very often energy-inefficient, placing huge electricity and cost burdens on society. The Alliance has targeted improvements in this sector as an important means of deploying energy efficiency.

The Alliance has developed an innovative and successful initiative, known as Watergy™, that provides water and sewage utilities with a comprehensive program to improve their energy efficiency, reduce costs, and expand the availability of water resources. Demonstration programs are now underway in Brazil, Mexico, South Africa, India, Sri Lanka, Bosnia, Montenegro, Ukraine, and the Philippines.

For example, some 350,000 residents of Fortaleza, Brazil, now enjoy improved water service thanks to Watergy™. With help from the Alliance, Fortaleza has reduced demand by almost a half million cubic meters, saving seven million KWh and $500,000 annually. This savings also allowed the utility to expand service to more than 88,000 new water customers, even as the city suffered from a prolonged drought.

In the state of Karnataka, India, Watergy™ identified energy-efficiency improvements that will reap $700,000 in annual savings, representing a 21 percent improvement in efficiency. The savings will reduce the need for state subsidies and the demand on over-taxed electricity systems. Largely based on this work, the World Bank targeted these measures as an important part of a $50 million development loan to Karnataka.

Another Alliance target for improved end-use efficiency in the electricity sector is promotion of more energy-efficient motors and systems. Motors represent a very large efficiency potential, as they account for two-thirds of electricity use in the U.S. industrial sector. With a goal to cut energy use in this area by approximately 20 percent (20,000 GWh a year), the Alliance partners with the Department of Energy, Lawrence Berkeley National Laboratory, and the Hydraulic Institute – the U.S. association of pump manufacturers – to provide tools and hold a wide range of workshops to raise awareness of energy-efficiency opportunities in industrial motor systems.

BRINGING THE ENERGY-EFFICIENCY BUSINESS OPPORTUNITY TO LESS FORTUNATE COUNTRIES

Global energy use offers a huge opportunity for improved energy efficiency, so the Alliance continues to explore and identify ways to transfer our experience and extensive industry partnerships to save energy and create new business opportunities. For more than a decade, the Alliance’s Energy Efficiency Industry Partnership (EEIP) has teamed with U.S. and in-country companies to educate energy managers in the developing world about energy-efficiency opportunities and the latest technologies.

To date, we have trained more than 5,000 energy managers — a 2003 seminar in Mexico drew 130 managers from 50 companies who are now initiating energy-efficiency projects in their companies, hospitals, hotels, and government buildings.

The Mexico seminar was described as a milestone by an energy manager in the Grupo Industrial Saltillo, because it taught him how to apply a comprehensive approach for cutting his firm’s energy costs by 30 percent over the next five years. In addition, his parent company, which spends $40 million annually on energy, has recently installed a new, high-efficiency kiln that consumes 60 percent less natural gas.

The City of Austin, Texas, represented by Mayor Will Wynn, accepted the Alliance’s highest honor, the Charles H. Percy Award for Public Service, at the 2003 annual awards dinner. Customers of Austin Energy, which invests $15 million annually on energy-efficiency programs, enjoy some of the lowest average monthly electric bills in Texas. Since 1982, electricity savings equal the annual output of a 500-megawatt power plant.
With the emergence of the global economy, it is all the more critical that we do everything we can to prepare our children for the new world they will live in as adults. Through our Green Schools program, the Alliance is teaching tomorrow’s consumers the importance and economic value of energy efficiency.

First created in 1996, Green Schools incorporates energy efficiency into school curricula and then helps students, teachers, maintenance staff, and administrators implement energy- and money-saving projects in their schools. The program spreads energy-efficiency knowledge beyond the classroom – through the students – to parents and communities.

In California, 34 Green Schools reduced electricity use by 1.7 million kWh, saving the cash-strapped state $292,534. In Howard County, Md., five schools simply applied no-cost changes in behavior to cut annual energy use by 614,770 kWh and save more than $50,000. At Harper’s Choice Middle School, students “enlightened” their teachers and parents about energy-saving compact fluorescent light bulbs (CFLs) with a “Sunrise Symphony of Lights Tour.” Those who took up the student challenge to switch to CFLs reported monthly energy bill savings of $40.

Green Schools’ success in the U.S. recently inspired a similar program in Serbia. The message took so well that two Serbian schools entered the Green Schools’ prestigious Earth Apple Awards competition, sponsored by Alliance Associate ABB, and promptly won top prizes!

U.S. schools spend $8 billion a year on energy. If all U.S. schools became “Green Schools” and saved the average amount now realized by such facilities, America’s taxpayers would save an impressive $640 million annually in reduced energy costs.

The Harper’s Choice Middle School’s energy-wise students will reach an even larger audience when the Public Broadcasting System features their Energy Alliance in a 90-minute special hosted by Leonardo DiCaprio, set to air in October 2004.
The Alliance’s well-regarded private sector Federal Energy Productivity Task Force, made up of representatives of more than 40 organizations, has worked for more than a decade to recommend innovative ways to reduce energy waste in the government’s 500,000 buildings. Under the leadership of Sempra Energy Services and PIMA, along with key representatives from Johnson Controls, the Task Force has brought private sector experience and expertise to the problem.

Key has been the Task Force’s leadership on promoting the use of Energy Savings Performance Contracts. They bring private sector expertise and investment capital to undertake energy-saving projects in which repayment is only made based on actual energy cost savings. With tight federal budgets, it’s the only practical way the federal government can upgrade its buildings and save taxpayers millions in energy costs. To date, almost $1 billion have been successfully invested. Unfortunately, congressional authorization of this contracting method expired in October, but the Alliance and the Task Force worked hard in 2003 to secure reauthorization.

Moving the Government, Mobilizing the Metering Industry

Believe it or not, while virtually every corporate energy manager will tell you, “If you can’t meter it, you can’t control it,” many large military bases and other facilities have only one meter, hanging on the perimeter fence. Installing advanced metering and using the information to properly manage energy use and target where to best invest limited resources holds tremendous energy-saving potential — perhaps up to $500 million per year.

To realize these savings, the Alliance is educating federal decision-makers and private sector providers; developing metering, monitoring, and analysis benchmarks; and identifying ways to reduce costs, improve reliability, and simplify monitoring and verification in Energy Savings Performance Contracts.

Alliance Co-Chair Sen. Susan Collins (R-Maine) introduced legislation to authorize a pilot demonstration of Energy Savings Performance Contracts as a way to improve the energy efficiency of federal mobile assets — from airplanes to ships and combat vehicles.
BRINGING ENERGY EFFICIENCY TO THE CLIMATE CHANGE TABLE

Many energy experts consider climate change to be the most pressing environmental issue we face today. In response, companies from Patagonia to British Petroleum are reducing their greenhouse gas emissions – first and foremost by making their operations more energy-efficient. They are realizing, thanks in part to the Alliance’s efforts, that energy efficiency is the lowest-cost option for reducing CO2 emissions, and that it can make companies more competitive, too.

At the same time, a new global market for trading of CO2 credits is emerging. The European Union has set up a system requiring large emitters of CO2 to reduce their emissions or buy offsets of carbon dioxide from projects around the world. This has led many companies to invest in clean energy projects and use the reduction in CO2 emissions to meet their own targets. If the Kyoto Protocol comes into force, Japan and Canada, too, will enter this system, creating more buyers for carbon offsets and more investors for energy-efficiency projects.

**HERE’S HOW IT WORKS:** If a large European manufacturer knows it will exceed its emissions target, or cap, by 100,000 tons of CO2, it can buy 100,000 credits in the international carbon market. Energy-efficiency projects, by their very nature, reduce pollution and thus reduce CO2 emissions.

The Alliance is advising the energy-efficiency industry on how to take advantage of this new opportunity and design projects that make carbon credits available for sale in this emerging market.

The growth in this new market is impressive. In 2001, buyers anticipating the need to reduce their own “carbon footprint” purchased about 15 million tons of CO2 offsets. By 2002, that number had doubled to 30 million tons, and it more than doubled again – to 70 million tons – in 2003. To date, renewable energy projects are the most popular for carbon trading, but the Alliance is making sure that energy-efficiency investments also are part of the global effort to reduce CO2 emissions.

In addition to working with energy-efficiency companies, the Alliance is developing its own CO2 reduction projects, starting with the trade with Swiss Re (see sidebar). The objective is to use this new market driver to accelerate the implementation of energy-efficiency projects around the world.

**Ukraine Carbon-Reduction Project** — In Ivano-Frankivsk, the Alliance initiated its first carbon-reduction project, which will completely offset the carbon emissions of Swiss Re’s Centre for Global Dialogue — also known as Ruschikon — for eight years. The proceeds from the sale of the carbon offsets covered half of the project’s overall cost.
3M Company
ABB
Acuity Brands-Lighting Group
American Gas Association
American Plastics Council
Andersen Corporation
American Public Power Association
Armstrong International, Inc.
Association of State Energy Research and Technology Transfer Institutions
Aspen Systems Corporation
AT&T Foundation
Barnstable County/Cape Light Compact
**BC Hydro**
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Perseus, LLC
Polyisocyanurate Insulation Manufacturers Association
Qualmag, Inc.
Sacramento Municipal Utility District
Sandia National Laboratory
Schlumberger Sema
Sears, Roebuck and Co.
**Sempra Energy**
Solar Energy Industries Association
**Southern California Edison**
Spirax Sarco
Tennessee Valley Authority
Texas A&M University – Energy Systems Laboratory
Texas State Energy Conservation Office
**The Home Depot**
Turbocor, Inc.
**Washington Gas**
Whirlpool Corporation
World Wildlife Fund

As of December 31, 2003
Names in **bold** are Founder Level Associates
RESTRICTED CONTRIBUTIONS BY FUNCTIONAL PROJECT AREA (UNAUDITED)

POLICY AND PUBLIC AWARENESS
• National Energy Efficiency Policy Education Project
• Energy Efficiency Public Service Campaign
• Home Energy-Efficiency Media Campaign

MARKET TRANSFORMATION
• Southern State Efficiency Initiative
• Federal Energy Productivity Task Force
• Mobility Energy Efficiency Initiative
• Energy Metering Training Partnership
• Federal Energy Management Procurement Challenge
• Efficient Windows Collaborative

RESIDENTIAL AND COMMERCIAL BUILDINGS
• Building Codes Assistance Project (BCAP)
• Responsible Energy Codes Alliance (RECA)
• Energy-Efficient Appliance and Equipment Standards
• International Energy Conservation Code
• ASHRAE Commercial Building Energy Standard
• Voluntary Advanced Building Energy Guidelines

GREEN SCHOOLS
• Earth Apple Awards
• Schools Best Practices Manual
• California Statewide Green Schools Initiative
• California Public Utilities Commission Green Schools
• Central Valley, Calif., Green Schools
• Philadelphia, Pa., Green Schools
• Rochester, N.Y., Green Schools
• Howard County, Md., Green Schools

INTERNATIONAL ENERGY EFFICIENCY
• MUNEE: Municipal Network for Energy Efficiency
• Armenia Energy Policy Reform Program
• Moldova District Heating Program
• Lithuania Energy Efficiency Program
• Serbia Municipal Energy Efficiency and Green Schools Program
• Watergy: The Nexus Between Water and Energy
• Brazilian Association of Water and Energy
• Mexico Border Initiative
• South Africa Pressure Optimization Pilot Demonstration
• India State Infrastructure Institutional Development
• Philippines Municipal Demonstration Program
• Bosnia Water Leakage Initiative
• Sri Lanka National Water Utility Program
• Watergy Toolkit for Water System Managers
• Energy Efficiency Industry Program:
  • China and Mexico Industrial Initiatives
  • Indonesia, Dominican Republic, and Sri Lanka Hotel Initiatives
• Thailand Energy Efficiency Development Association (EEDA)
• Collaborative Labeling and Standards Program Secretariat
• South Africa Refrigerator Labeling Program
• Brazil Motor Market Analysis
• Uruguay Labeling Evaluation
• Guidebook to Energy Efficiency Finance Funds
• China Efficient Windows Initiative

RESTRICTED CONTRIBUTIONS BY AMOUNT (UNAUDITED)

$500,000 or greater
• The Energy Foundation
• U.S. Department of Energy
• UN Foundation via UN/EC and UNDESA
• U.S. Agency for International Development
• California Public Utilities Commission
• California State and Consumer Services Agency
• Southern California Edison
• U.S. Environmental Protection Agency

$100,000 to $499,999
• ADM Associates
• New York State Energy Research and Development Authority
• U.S. Asia Environmental Partnership
• Pacific Northwest National Laboratory
• The Pew Charitable Trusts
• The William and Flora Hewlett Foundation
• San Diego Regional Energy Office
• North American Insulation Manufacturers Association
• Pacific Gas & Electric
• Lawrence Berkeley National Laboratory
• Wendel Energy Services
• DDB
• CHF International

$50,000 to $99,999
• Pennsylvania Department of Environmental Protection
• U.S. Department of State
• Building Media, Inc.
• Pennsylvania Sustainable Development Fund

Up to $50,000
• Armstrong Services
• Institute for International Education
• Holland & Knight
• NEEP, Inc.
• California Energy Commission
• Future Forests Ltd.
• Gas Technology Institute
• City of Quincy
• U.S. Department of Agriculture
• Princeton Energy Resources, International
• World Bank
• ABB, Inc.
• Australia Greenhouse Office
• American Chemistry Council
• Brickfield, Burchette, Ritts & Stone, PC
Independent Auditor’s Report

To the Board of Directors
Alliance To Save Energy
Washington, D.C.

We have audited the accompanying balance sheet of the Alliance to Save Energy (the Alliance) as of December 31, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Alliance’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year’s summarized comparative information has been derived from the Alliance’s 2002 financial statements and in our report dated May 13, 2003, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance to Save Energy as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 6, 2004, on our consideration of the Alliance’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Alexandria, Virginia
May 6, 2004
**BALANCE SHEET**

December 31, 2003
(With Comparative Totals For 2002)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>2,388,904</td>
<td>620,233</td>
</tr>
<tr>
<td>Grants Receivable</td>
<td>1,074,566</td>
<td>3,217,589</td>
</tr>
<tr>
<td>Other Receivables, net</td>
<td>477,451</td>
<td>250,690</td>
</tr>
<tr>
<td>Prepaid Expenses and Deposit</td>
<td>20,687</td>
<td>20,566</td>
</tr>
<tr>
<td>Property and Equipment, net</td>
<td>269,434</td>
<td>199,404</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 3,801,336</strong></td>
<td><strong>$ 4,308,482</strong></td>
</tr>
</tbody>
</table>

**LIABILITIES AND NET ASSETS**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>510,298</td>
<td>541,939</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>225,143</td>
<td>113,982</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>611,569</td>
<td>1,016,190</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>96,541</td>
<td>135,157</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>1,443,551</strong></td>
<td><strong>1,807,268</strong></td>
</tr>
</tbody>
</table>

Net Assets - Unrestricted

<table>
<thead>
<tr>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 2,357,785</td>
<td>2,501,214</td>
</tr>
</tbody>
</table>

**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2003
(With Comparative Totals For 2002)

<table>
<thead>
<tr>
<th>Revenue and support:</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>$ 5,272,388</td>
<td>$ 6,008,023</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporations and foundations</td>
<td>1,772,241</td>
<td>1,967,412</td>
</tr>
<tr>
<td>Membership contributions</td>
<td>758,950</td>
<td>807,286</td>
</tr>
<tr>
<td>Special events, net of cost of direct benefit to donors</td>
<td>261,586</td>
<td>284,627</td>
</tr>
<tr>
<td>Donated services</td>
<td>208,521</td>
<td>90,578</td>
</tr>
<tr>
<td>Administrative and advisory fees</td>
<td>32,908</td>
<td>49,552</td>
</tr>
<tr>
<td><strong>Total Revenue and Support</strong></td>
<td><strong>8,305,867</strong></td>
<td><strong>9,246,955</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>5,904,737</td>
<td>6,707,001</td>
</tr>
<tr>
<td>General and administrative</td>
<td>2,395,588</td>
<td>1,852,671</td>
</tr>
<tr>
<td>Fundraising</td>
<td>148,971</td>
<td>215,753</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>8,449,296</strong></td>
<td><strong>8,775,425</strong></td>
</tr>
</tbody>
</table>

**Change in net assets**

<table>
<thead>
<tr>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>(143,429)</td>
<td>471,530</td>
</tr>
</tbody>
</table>

Net assets:
- **Beginning** | 2,501,214 |
- **Ending** | 2,357,785 |

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2003
(With Comparative Totals For 2002)

<table>
<thead>
<tr>
<th>PROGRAM SERVICES</th>
<th>Demonstration</th>
<th>Policy</th>
<th>Communications</th>
<th>Total Program Services</th>
<th>General &amp; Administrative</th>
<th>Fundraising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional fees and contract services</td>
<td>$ 2,244,404</td>
<td>$ 571,76</td>
<td>$ 120,701</td>
<td>$ 2,422,281</td>
<td>$ 409,571</td>
<td>$ 28,632</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,352,626</td>
<td>182,776</td>
<td>193,022</td>
<td>1,728,424</td>
<td>952,670</td>
<td>62,548</td>
</tr>
<tr>
<td>Employee benefits and payroll taxes</td>
<td>607,665</td>
<td>38,649</td>
<td>36,163</td>
<td>682,477</td>
<td>483,482</td>
<td>2,728</td>
</tr>
<tr>
<td>Travel</td>
<td>383,067</td>
<td>2,743</td>
<td>7,380</td>
<td>393,190</td>
<td>21,944</td>
<td>2,728</td>
</tr>
<tr>
<td>Occupancy</td>
<td>236,027</td>
<td>15,960</td>
<td>6,330</td>
<td>258,317</td>
<td>116,921</td>
<td>9,136</td>
</tr>
<tr>
<td>Supplies and miscellaneous</td>
<td>79,022</td>
<td>705</td>
<td>6,468</td>
<td>86,195</td>
<td>211,436</td>
<td>2,728</td>
</tr>
<tr>
<td>Telephone and communications</td>
<td>115,481</td>
<td>7,483</td>
<td>3,866</td>
<td>126,332</td>
<td>39,719</td>
<td>2,728</td>
</tr>
<tr>
<td>Printing and publication</td>
<td>46,079</td>
<td>6,995</td>
<td>69,590</td>
<td>75,500</td>
<td>6,443</td>
<td>12,102</td>
</tr>
<tr>
<td>Meetings and conferences</td>
<td>52,892</td>
<td>130</td>
<td>8,697</td>
<td>62,719</td>
<td>11,360</td>
<td>6,443</td>
</tr>
<tr>
<td>Depreciation</td>
<td>389</td>
<td>-</td>
<td>-</td>
<td>389</td>
<td>74,226</td>
<td>-</td>
</tr>
<tr>
<td>Periodicals, dues, and subscriptions</td>
<td>24,706</td>
<td>1,201</td>
<td>12,528</td>
<td>38,435</td>
<td>16,043</td>
<td>2,269</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>9,553</td>
<td>-</td>
<td>665</td>
<td>10,218</td>
<td>44,286</td>
<td>-</td>
</tr>
<tr>
<td>Postage and shipping</td>
<td>29,042</td>
<td>242</td>
<td>8,126</td>
<td>37,410</td>
<td>7,487</td>
<td>3,618</td>
</tr>
<tr>
<td><strong>Total direct costs</strong></td>
<td><strong>5,181,955</strong></td>
<td><strong>311,841</strong></td>
<td><strong>410,941</strong></td>
<td><strong>5,904,737</strong></td>
<td><strong>2,395,588</strong></td>
<td><strong>148,971</strong></td>
</tr>
<tr>
<td>Indirect allocation</td>
<td>1,428,499</td>
<td>41,773</td>
<td>389</td>
<td>1,489,201</td>
<td>(1,567,280)</td>
<td>78,079</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$ 6,610,454</strong></td>
<td><strong>$ 353,614</strong></td>
<td>$ 429,870</td>
<td><strong>$ 7,393,938</strong></td>
<td><strong>$ 828,308</strong></td>
<td><strong>$ 227,050</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2003
(With Comparative Totals For 2002)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flows from Operating Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$(143,429)</td>
<td>$471,530</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>74,615</td>
<td>77,569</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>5,497</td>
<td>19,000</td>
</tr>
<tr>
<td>Unrealized (gain) loss on investments</td>
<td>-</td>
<td>(5,023)</td>
</tr>
<tr>
<td>Deferred Rent</td>
<td>(38,616)</td>
<td>(38,616)</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants receivable</td>
<td>2,143,023</td>
<td>(1,191,338)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>197,448</td>
<td>(27,734)</td>
</tr>
<tr>
<td>Prepaid expenses and deposit</td>
<td>(121)</td>
<td>5,139</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(31,641)</td>
<td>316,205</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>111,161</td>
<td>17,099</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>(404,621)</td>
<td>231,210</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td><strong>1,913,316</strong></td>
<td><strong>(124,959)</strong></td>
</tr>
<tr>
<td>Cash Flows from Investing Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(144,645)</td>
<td>(20,243)</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>-</td>
<td>800</td>
</tr>
<tr>
<td>Proceeds from the sale of marketable securities</td>
<td>-</td>
<td>16,809</td>
</tr>
<tr>
<td><strong>Net cash (used in) investing activities</strong></td>
<td><strong>(144,645)</strong></td>
<td><strong>(2,634)</strong></td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td><strong>1,768,671</strong></td>
<td><strong>(127,593)</strong></td>
</tr>
<tr>
<td>Cash and Cash Equivalents:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning</td>
<td>620,233</td>
<td>747,826</td>
</tr>
<tr>
<td>Ending</td>
<td><strong>$2,388,904</strong></td>
<td><strong>$620,233</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities: The Alliance to Save Energy (the Alliance) is a not-for-profit coalition of government, business, and consumer leaders dedicated to increasing the efficiency of energy use. To achieve this goal, the Alliance conducts research, pilot projects, educational programs and policy advocacy. The Alliance's major sources of revenue are from grants and contracts from the federal government, energy efficient industry companies, utilities and foundations.

A summary of the Alliance's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Alliance is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Alliance had no temporarily restricted or permanently restricted net assets at December 31, 2003.

Cash and cash equivalents: For purposes of reporting cash flows, the Alliance considers all highly liquid investments purchased with a maturity of three months or less or with the intention to be sold within three months to be cash equivalents.

Financial risk: The Alliance maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Alliance has not experienced any losses in such accounts. The Alliance believes it is not exposed to any significant financial risk on cash and cash equivalents.

Receivables: Receivables are generated from membership dues, special events and prime and subgrant agreements with U.S. Governmental agencies and state agencies. Billed amounts represent invoices that have been prepared and sent to the customer. Unbilled amounts represent accumulated costs not yet billed. Receivables are carried at original invoice amount. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management believes that all receivables are fully collectible and no provision for doubtful accounts is necessary. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Property and equipment: Property and equipment acquired with a cost of $2,500 or higher are capitalized, at cost, and are depreciated using the straight-line method over the estimated useful lives of the assets which range from three to ten years. Expenditures for major repairs and improvements are capitalized and depreciated over the life of the office lease; expenditures for minor repairs and maintenance costs are expensed when incurred.

Support and revenue: The Alliance receives grants and contracts from federal agencies and private grantors for various purposes. Grants and contract awards not yet received are accrued to the extent unreimbursed expenses have been
incurred for the purposes specified by an approved grant or contract. The Alliance defers grants and contract revenues received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Federal grant awards are classified as refundable advances until expended for the purposes of the grants.

Membership dues are considered contributions and are recorded when received.

Donated goods and services: The Alliance receives donations of legal services. Donated goods and services are recorded at their estimated fair values as of the date of the donation.

Functional allocation of expenses: The costs of providing the Alliance's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes: The Alliance is generally exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Alliance qualifies for the charitable contributions deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The state corporate income taxes. The Alliance had no unrelated business income for the year ended December 31, 2003.

Estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended December 31, 2002, from which the summarized information was derived.

NOTE 2. GRANTS RECEIVABLE
Grants receivable consist of grants due from United States government agencies in the amount of $821,819. Also included in grants receivable is $252,747 of grant revenue due from state and local governments, corporations and foundations. All receivables are due within one year and are deemed to be fully collectible.
NOTE 3. PROPERTY AND Equipment AND ACCUMULATED DEPRECIATION

Property and equipment and accumulated depreciation at December 31, 2003, and depreciation expense for the year ended December 31, 2003, are as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Estimated Lives</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>Net Depreciation Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment</td>
<td>3-5 Years</td>
<td>$512,840</td>
<td>$375,837</td>
<td>$137,003</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>6-10 Years</td>
<td>297,055</td>
<td>196,376</td>
<td>100,679</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>3-10 Years</td>
<td>184,044</td>
<td>152,292</td>
<td>31,752</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$993,939</td>
<td>$724,505</td>
<td>$269,434</td>
</tr>
</tbody>
</table>

NOTE 4. RETIREMENT PLAN

The Alliance sponsors a defined contribution pension plan that covers all employees who meet the length of service requirements. Under the plan, the Alliance makes annual contributions based upon a percentage of each participant’s earnings. Participants may also contribute to the plan through salary reductions limited by current tax law. Pension expense for the year ended December 31, 2003, totaled $157,302.

NOTE 5. MAJOR GRANTOR

The Alliance is heavily dependent on grants from the U.S. Government. U.S. Government grants comprised approximately 48% of revenue and support for the year ended December 31, 2003. Reduction of funding from the U.S. Government would have significant impact on the operations of the Alliance.

NOTE 6. COMMITMENTS

The Alliance has an office space agreement through June 30, 2006, with a termination option starting in July 2001. The lease provides for monthly rentals of $26,171 through June 2006. The lease also provided for one month of abated rent and a $265,000 build-out allowance. The abated rent and build-out allowances have been recorded as deferred rent and are being amortized over the term of the lease. In addition, the lease agreement calls for a pass-through of expenses to the Alliance for its share of operating expenses and real estate taxes.

The Alliance has also entered into office space agreements in other countries in which the Alliance conducts projects and educational programs.

The following is a schedule of future minimum rental payments under non-cancelable leases, having initial or remaining terms of more than one year at December 31, 2003:

<table>
<thead>
<tr>
<th>Years ending December 31</th>
<th>Rental Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$319,554</td>
</tr>
<tr>
<td>2005</td>
<td>314,052</td>
</tr>
<tr>
<td>2006</td>
<td>157,026</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$790,632</strong></td>
</tr>
</tbody>
</table>

Rent expense under operating leases was $384,375 for the year ended December 31, 2003.

NOTE 7. CONTINGENCY

The Alliance participates in a number of federally assisted grant programs which are subject to financial and compliance audits by federal agencies or their representatives. Management does not anticipate any significant adjustments as a result of such an audit.
OUR MISSION

The Alliance to Save Energy promotes energy efficiency worldwide to achieve a healthier economy, a cleaner environment, and greater energy security.

CORPORATE STATEMENT

The Alliance to Save Energy strives to be the world’s premier organization promoting energy efficiency to achieve a healthier economy, a cleaner environment, and greater energy security. To achieve this goal, the Alliance to Save Energy:

LEADS worldwide energy-efficiency initiatives in research, policy advocacy, education, technology deployment, and communications that impact all sectors of the economy;

PROVIDES vision and activism through its board of directors, which includes leaders from business, government, the public interest sector, and academia;

INITIATES and participates in public-private partnerships, collaborative efforts, and strategic alliances to optimize resources and expand its sphere of influence; and

EXECUTES its mission through a team of recognized energy-efficiency experts and professionals.