The Reinvestment Fund

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Lawrence H. Berger, Esq.
Morgan, Lewis & Bockius LLP
Board Counsel

¹ Executive Committee
⁺ Finance and Audit Committee
Nineteen years ago the first board members and investors of The Reinvestment Fund held a session to imagine our future.

We set two goals that seemed quite ambitious—to raise one million dollars, and to plan for a time when we could make more than one million dollars in development loans in a year.

It took us three years to raise the first million dollars and another three years before we were steadily lending more than $1 million per year.

Today we manage more than $210 million and last year made more than $65 million in new loans and investments. We have become a national leader in our field, both for the range of our programs and accomplishments and for our ability to assess our impact and articulate new ideas for community investment and development.

We’ve long since surpassed those goals from that meeting nineteen years ago, but not the vision that inspired them. The Reinvestment Fund of today remains committed to imagining ways that investors, borrowers and civic supporters can transform our neighborhoods and economy. This annual report is evidence of those transformations and the relationships and values that create them.

In June 2005 we will celebrate our 20th Anniversary. This year, we will complete a long-range plan that will launch us into our next 20 years.

This report highlights the successes of the past year. But we prefer to think of it as a vantage point from which we can look forward. We hope you’ll be part of our growing community of transformation as we imagine what lies ahead.

Jeremy Nowak, President & CEO
John Ball, Board Chair
Baltimore Dredge is a small and growing manufacturing company with customers in 82 different countries. A $1.5 million investment this year provided the capital to expand operations.

An award of $38.5 million in New Market Tax Credits to TRF in May brought U.S. Treasury Under Secretary Roseboro to TRF and to the TRF-financed Universal Institute Charter School.

With Blue Hill Partners, SDF created PA-AIT, a private equity fund that has invested $575,000 in three early stage renewable and clean energy companies.
At the core of TRF’s mission is our commitment and proven ability to put capital to work for the public good. We’ve created a community of investors ranging from religious institutions to financial institutions, from 700 civic-minded individuals to philanthropic trusts to the federal CDFI Fund. Through TRF, these investors finance businesses, schools, community services and housing developments that make our neighborhoods and region vital.

We began as a small loan fund. Today, that core loan fund has grown to $64 million and we have leveraged our assets and track record to create new financial vehicles. TRF Private Equity encompasses almost $60 million in private equity funds from a remarkably wide range of investors. The $32 million Sustainable Development Fund (SDF), born from the deregulation of Pennsylvania utilities, sponsors technologies and businesses that help our homes, schools, and industries use energy more efficiently.

The innovative Charter School Capital Access Program, with $40 million in bank investments guaranteed by $6.4 million from the U.S. Department of Education, will help us meet the growing demand for charter school financing. This year, we refocused TRF Collaborative Lending Initiative — a $35 million syndicated partnership of 20 banks — to serve a broader range of housing and community facility construction projects. Most recently, the U.S. Department of Treasury granted TRF a $38.5 million New Market Tax Credit allocation, which we will use to attract new investments for major development projects in low-income communities.

TRF investments help transform the way businesses operate, schools educate and the region produces energy. This year, TRF financed the work of 28 businesses, 32 housing developers, and 22 community facilities. The Sustainable Development Fund has helped make Pennsylvania the largest producer of wind energy east of the Mississippi and spurred equity investments in early stage clean energy companies and energy lease financing that have created significant energy conservation for hospitals and universities.

We rapidly put to work the capital we raise. In the past three years, we have financed almost as much as in our first 15 years. As the pace of demand continues to grow, we will continue to be wise about identifying new capital sources and building new financing programs. Our opportunity to work with our investors to turn such capital into social change is extraordinary.

“TRF applies the tools and resources of capital markets to the core challenges of economic opportunity that will determine the long-term strength of our nation.”

Brian Roseboro, Under-Secretary for Domestic Finance, United States Department of the Treasury
How can once-healthy neighborhoods find new life? How can vacant lots and crumbling warehouses become assets in stable, safe communities? It takes creative financing that can encourage housing and attract business. It takes new community partnerships. It takes the persistence that can maneuver through complex bureaucracies and achieve results. It takes the experience and optimism of TRF.

Our philosophy is simple. We use existing neighborhood assets as the foundation for future growth. From Philadelphia’s University City and Brewerytown to the neighborhoods of Camden, we are building broad-based partnerships and using our investment dollars to leverage tens of millions more from private developers and investors in neighborhoods once considered unattractive for development.

Our business lending supports local entrepreneurs and revives once-thriving commercial corridors. TRF financing helps local manufacturers, like the Quint Company, prosper. Operating in Philadelphia’s Juniata neighborhood since 1849, this successful rubber stamp company has reinvented itself for the 21st century by pioneering new barcode technologies for the pharmaceutical industry.

This year, we rolled out a new neighborhood planning and investment approach. We have hit the streets with community groups to gather door-to-door survey data. Employing the most sophisticated planning and mapping skills, we then transform this data into an achievable vision for these neighborhoods. Already, we have worked with our partners to develop plans for several neighborhoods in Philadelphia, for Camden, and for the Oliver neighborhood of Baltimore.

In Baltimore, TRF’s neighborhood plan outlined how to shift the tide of rapid decline in Oliver, the area adjacent to Johns Hopkins Hospital, and has already garnered the support of Senator Mikulski.
“TRF’s value in approach to neighborhood development comes from its ability to be both choreographer and dancer at the same time, developing a beautiful plan and sweating out the implementation.”

Carl Anthony, Deputy Director, Community and Resource Development, The Ford Foundation

In Camden, TRF works with the Redevelopment Agency, City and State officials, the Ford and William Penn Foundations, nonprofits and private developers to breathe new life into the city’s severely distressed housing market. This work focuses on three high priority real estate development projects.

The 9,668 homes TRF has financed could create a town larger than 87% of all NJ towns, on par with the City of Rahway.

TRF-financed charter schools enroll 11,599 children — more students than 96% of the school districts in PA.

Delicious Sugar Hill Bakery, one of the 35 TRF-financed businesses this year, brings an attractive storefront to West Philadelphia’s Baltimore Avenue, a once-struggling commercial corridor.

The results and future promise of these efforts inspire community groups, public officials, private developers and foundations to come together around a common goal. TRF is right there in the middle, using experience and creativity as catalysts for change. Of all the places we work, this is where we most want to be.
TRF proudly invests in potential. We believe that all children can learn, that adults can succeed at work and that parents can build secure futures for their families. Sometimes reaching that potential takes the right kind of help. That’s where TRF comes in.

TRF’s investment in potential starts early. We have supported 74 child care centers plus the 38-center Allegheny Child Care Academy, helping roughly 12,400 children of working parents prepare for school.

When Philadelphia began considering charter schools, TRF studied the market and saw promise where some only saw problems. Our vision and ability to manage the risk of charter school lending has led to the financing of 22 charter schools.

TRF provided Ujima Village with predevelopment and construction financing to restore a prominent landmark building as housing for senior citizens and developmentally disabled adults.

With two banks participating, TRF orchestrated $6.2 million in construction and permanent financing for the First Philadelphia Charter School for Literacy, which can now house its expanding student body in one new state-of-the-art facility.

Kids in TRF-supported child care centers could fill Harvard and Yale’s undergraduate classes.

$482,445 was returned to 224 child care workers this year via TRF’s free tax prep service.

TRF provides management assistance to 31 centers serving more than 2,400 children, as part of the United Way’s Early to Learn Initiative. At one of many centers where we improved the billing and collections systems, management recouped more than two-thirds of the subsidy payments it was going to write off.

IMAGINE

better

CREATING OPPORTUNITIES

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At TRF-financed schools like CHAD and the Universal Institute Charter School, daily attendance and average test scores are soaring, and TRF’s investments are paying off in student achievement.

TRF has actively invested in the region’s workforce, most recently sponsoring customer service and IT training for those looking for work and continuing to encourage advancement opportunities for employees of companies in which we invest.

Our investment extends beyond capital. This year, we put our financial expertise to work by preparing tax returns for more than 150 low-income employees of companies we finance. We enabled these individuals to take advantage of all eligible tax credits, returning $318,293 to them. Because of our efforts, they can now invest this money into home equity or education, instead of paying high tax preparation fees or acquiring exploitative loans.

TRF knows that if hard-working families can’t afford good homes, our children, our economy and our cities cannot thrive. So we’ve worked hard to help developers create quality rental and owner housing within the economic reach of low- and moderate-income residents extending as far north as Newark and as far west as Pittsburgh.

In these projects, as with all of our financing, TRF is more than a lender. We act as broker and advisor to many of our borrowers – helping them navigate public systems, assemble financing packages, make wise location decisions, and implement energy efficient technologies.

Investor. Advisor. Advocate. Visionary. It takes playing all of these roles to create opportunity and encourage self-sufficiency. It takes believing that the work is never done, as there’s always the potential for a better future.
In 1999, we established the TRF Policy Group to bring TRF’s results-driven financing approach to the public policy arena. We knew we could gather and synthesize data in ways that would produce innovative policy recommendations and inspire new public-private partnerships. We wanted to turn research into action, and help transform how public, private and nonprofit sectors respond to problems and opportunities to maximize the impact of their investments.

TRF policy analysts consistently produce studies that simultaneously illuminate the causes and effects of stubborn challenges, and present appropriate, feasible solutions. By doing so, our research agenda has jump-started markets by identifying opportunities for investment. We have shown that good, timely data can engage policy makers and opinion leaders. We believe that the actions of these leaders can improve how our systems work to advance the public good at every level – in our cities, states, and in our country.

This past year, TRF confirmed its expert status on housing- and employment-related issues. Our extensive experience with statewide workforce policy issues resulted in the appointment of TRF’s own Workforce Policy Director, Fred Dedrick, as the new Executive Director of Pennsylvania’s Workforce Investment Board, positioning him to make happen from the inside that which TRF has long advocated for from the outside.

TRF’s *Choices* report proposed a strategic framework for maximizing impact of state investment in housing. The report spurred public officials and foundations to request further regional analyses in the Poconos and in Pittsburgh.
In a similar way, TRF’s housing policy work – including a review of Pennsylvania’s various housing initiatives, mortgage foreclosures, and potential predatory lending practices – earned the Policy Group significant advisory roles with public officials in both Pennsylvania and New Jersey, which will continue into the year ahead.

We apply the same analytical vigor to our own work. Vigilant about gathering data and conducting impact analyses about the projects we finance, we continue to improve our own advice to partners and the underwriting of loans, finding ways to use good data to maximize the positive impact we can have on our communities.

TRF’s comprehensive analysis of Monroe County has helped the Commonwealth take action to curb an epidemic of foreclosures.

Responding to employers’ needs, TRF worked with JEVS to create specialized training for customer service workers. In June, Pennsylvania encouraged local Workforce Boards to prioritize such standards-based training.
### PRIVATE EQUITY
- Baltimore Dredges, LLC
- Ricochet Manufacturing Company, Inc. *
- Smart-Hose Technologies
- Sun & Earth, Inc.
- Verilaw Technologies, Inc. *
- Your Money Access, LLC

**Total: 17 Transactions**

**$6,667,300**

### SMALL BUSINESS
- Beyond Boundaries, LLC
- Charlene Rawlinson dba Lene’s Daily Childcare
- Crown Remanufacturing, Inc.
- Faithful Foundation Learning Academy
- Fountain of Youth Child Care Center, LLC
- Hiphouse, Inc.
- Home Care Associates of Philadelphia
- Kameelah Mu’Min dba Sugar Hill Bakery
- Lizzies, Inc.
- MLLK Corporation
- Moon & Back, Inc.
- Nicoletti Hockey Complex, LLC
- Packer Avenue Foods, Inc.
- S.H. Quint’s Sons Co.
- Skweedunkles, Inc.
- Tag & Label Graphics Corp dba Imageworx *
- Tommy D’s Home Improvement Center, Inc. *

**Total: 21 Transactions**

**$3,510,540**

### COMMUNITY SERVICE
- American Cities Foundation
- Association of Child Daycare Providers, Inc.
- Childspace Daycare Center, Inc.
- Community Academy of Philadelphia Charter School
- Energy Coordinating Agency of Philadelphia, Inc./Smart Energy Solutions
- First Philadelphia Charter School for Literacy/ Frankford Valley Corporation *
- Freire Charter School
- Friends of Preparatory Charter School *
- Germantown Settlement
- Gold Medal Karate, Inc.
- Hispanic Association of Contractors and Enterprise *
- Mathematics, Civics, and Sciences Charter School/ Parents United for Better Schools
- Little Duckies Day Care
- Montgomery Early Learning Centers
- Mount Airy USA
- Philadelphia Academy Charter School CDC
- Positive Effect Outreach Ministry
- Skweedunkles, Inc.
- Universal Companies *
- West Oak Lane Charter School
- Wissahickon Charter School
- Youth Enrichment Programs

**Total: 27 Transactions**

**$16,952,182**

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SDF-financed wind farms provide energy equal to 450,000 barrels of oil each year.
TRF has financed 11 solar townhouses for low- or moderate-income families in West Philadelphia. These homes incorporate advanced design and systems features previously available only to upper-end home buyers and are among the most energy efficient and affordable housing available on the market.

With New Jersey HMFA, TRF financed 25 units of scattered-site housing that HANDS developed in Orange, New Jersey, providing affordable options, critical in a rapidly appreciating housing market.

* Multiple Transactions
**SUMMARY**

The Reinvestment Fund (TRF) ended the year with $95.6 million in consolidated assets. Loans and leases receivable and program investments grew by $7.0 million (13%) to end the year at $62.3 million. Capital under management totaled $214 million as of June 30, 2004, an increase of $14 million over the prior year.

Net assets excluding our Sustainable Development Fund (SDF) increased $2.1 million to $16.2 million. Our capital adequacy ratio (net assets/total assets) excluding SDF ended the year at 23%. As expected, net assets of SDF declined $4.8 million to $24.0 million, as SDF deployed its capital, primarily in the form of grants, to further its mission.

The Reinvestment Fund attained several notable financial accomplishments during fiscal 2004:

- TRF closed 121 financing transactions totaling $59.3 million in fiscal 2004, an increase of $6.7 million (13%) over fiscal 2003. Additionally, our private equity funds closed on $6.7 million in investments during fiscal 2004 as compared to $4.6 million in fiscal 2003.

- TRF received a New Markets Tax Credit (NMTC) allocation award of $38.5 million from the U.S. Department of the Treasury. TRF was the only Pennsylvania based organization to receive an allocation.

- TRF Collaborative Lending Initiative (CLI), a bank collaborative that provides capital to large-scale construction projects, was expanded to include 20 banks with capital committed of $35.3 million.

- The loan portfolio had another impressive year of performance with a net recovery in excess of loan charge-offs extending our long-term trend of negligible charge-offs.

**FINANCIAL POSITION**

Consolidated loans and leases receivable and program investments outstanding totaled $62.3 million as of June 30, 2004, an increase of $7.0 million (13%) over the prior year. SDF’s loans and leases receivable increased $3.7 million (302%) to $4.8 million primarily from lease financing activity while small business lending increased $1.3 million (14%) to $10.2 million reflecting growth in the SBA-guaranteed portion of our small business portfolio. Loans outstanding in housing and community services declined $0.3 million to $41.2 million. Program investments including those in limited partnerships increased $2.3 million to $5.5 million reflecting growth in housing, energy and private equity investments.

At June 30, 2004, our allowance for loan losses totaled $2.8 million resulting in reserve coverage of 5.0% (allowance for loan & lease losses/loans & leases receivable). The maintenance of this level of reserves reflects our conservative approach to portfolio management and underwriting. Loan delinquencies (greater than 60 days past due) totaled $1.3 million or 2.34% of total loans and leases outstanding at June 30, 2004.
Net assets, excluding SDF, increased $2.1 million to $16.2 million. SDF, which was fully capitalized in fiscal 2001 at $32 million, had net assets totaling $24.0 million at June 30, 2004. In fiscal 2004, 2003 and 2002, SDF’s net assets decreased $4.8 million, $1.5 million and $0.6 million, respectively. The decrease in the net assets of SDF is expected to continue as SDF deploys capital, in large part through the award of grants, as it promotes the development and use of renewable and clean energy technologies.

Our total capital under management increased to $214 million, up $14 million (7%) over the prior year. The growth was due to the expansion of our construction lending facility (CLI) and increased capital availability in our core loan fund.

**RESULTS OF OPERATIONS**

From a financial perspective, we separate our programs and services into two categories: financing programs that have a goal of self-sufficiency, and policy and workforce programs that are substantially funded by grants and contracts.

**Financing Programs**

We continue to stress self-sufficiency in our financing programs. Our self-sufficiency ratio in financing programs, excluding SDF, was 96% for fiscal 2004 versus 70% for fiscal 2003. This ratio measures the extent of expense coverage through earned revenue and is calculated as the sum of net interest income, loan fees, provision for credit losses and investment advisory fees as a percentage of financing program and related management and general expenses.

The significant improvement in fiscal 2004 reflects the growth in our loan and lease portfolio as well as increased loan and lease closing activity.

The Sustainable Development Fund is a financing program that is fully capitalized with total assets of $24.6 million and whose assets are targeted for renewable and clean energy projects. Given its restricted purpose and capital structure, SDF is appropriately viewed separately from our other financing programs.

Total financings closed during fiscal 2004 were $59.3 million, an increase of $6.7 million (13%) over the prior year. Affordable Housing closings increased $1.5 million over the prior year to $34.3 million reflecting continued growth in construction lending, while Community Services closings increased $2.2 million to $17.0 million on the strength of charter school construction loan activity.
The Sustainable Development Fund closings increased by $3.7 million over the prior year to $4.6 million primarily due to energy equipment lease financing activity while Small Business loan closings declined $0.6 million to $3.5 million. Additionally, TRF Private Equity closed on $6.7 million in new loans and investments an increase of $2.1 million over the prior year.

The provision for loan losses was $49 thousand in fiscal 2004 and $1.1 million in fiscal 2003. The fiscal 2003 provision reflects significant growth in loans and lease receivable outstanding.

During fiscal 2004, TRF had a net recovery in excess of charge-offs of $19 thousand. For fiscal 2003, net charge-offs were $93 thousand resulting in a net loan loss ratio of 0.18%. TRF continued its long-term trend of negligible charge-offs.

**Policy and Workforce Programs**
TRF has been successful in attracting significant grant and contract support for research and workforce projects that have allowed us to create new regional policy approaches and loan and investment products in support of our mission. We continue to adhere to the financial discipline of securing financial support prior to embarking on new programs. Revenues for Policy and Workforce Programs totaled $2.6 million for fiscal 2004 and $2.7 million for fiscal 2003.

It should be noted that under generally accepted accounting principles, grant revenue is recorded in the year an unconditional promise to give is received, while expenses are recorded in the year the liability is incurred. Accordingly, grant revenue and related expenses may not be recorded in the same fiscal year.

**The Reinvestment Fund, Inc. and Affiliates** received an unqualified opinion from its auditors for fiscal year 2004. The complete audit report, including financial statements and footnotes is available upon request at the office of The Reinvestment Fund, 718 Arch Street, Suite 300N, Philadelphia, PA 19106, telephone 215-574-5800.
# SELECTED FINANCIAL DATA

### FINANCIAL POSITION DATA

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<tr>
<td>Total assets</td>
<td>95,584</td>
<td>95,303</td>
<td>93,880</td>
<td>88,117</td>
<td>56,110</td>
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<tr>
<td>Loans and leases receivable</td>
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<td>52,060</td>
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<tr>
<td>Allowance for loan and lease losses</td>
<td>2,848</td>
<td>2,779</td>
<td>1,793</td>
<td>1,591</td>
<td>1,293</td>
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<td>Investments</td>
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<td>29,583</td>
<td>35,975</td>
<td>28,499</td>
<td>20,252</td>
</tr>
<tr>
<td>Investments in limited partnerships</td>
<td>4,208</td>
<td>1,869</td>
<td>1,548</td>
<td>591</td>
<td>594</td>
</tr>
<tr>
<td>Loans payable</td>
<td>52,110</td>
<td>48,684</td>
<td>46,952</td>
<td>43,297</td>
<td>38,751</td>
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### Financial Position Data (excluding SDF)

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<td>46,952</td>
<td>43,297</td>
<td>38,751</td>
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<td>Unrestricted</td>
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<td>5,283</td>
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<td>Temporarily restricted</td>
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<td>Permanently restricted</td>
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<td>5,555</td>
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### Activities Data

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<td>Net interest income</td>
<td>3,418</td>
<td>2,801</td>
<td>2,497</td>
<td>2,666</td>
<td>1,805</td>
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<tr>
<td>Provision for loan and lease losses</td>
<td>49</td>
<td>1,080</td>
<td>433</td>
<td>398</td>
<td>111</td>
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<tr>
<td>Investment advisory fees</td>
<td>1,603</td>
<td>1,917</td>
<td>745</td>
<td>289</td>
<td>271</td>
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<td>Grants and contributions</td>
<td>4,802</td>
<td>5,410</td>
<td>5,406</td>
<td>31,753</td>
<td>5,923</td>
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<td>Program services and fees</td>
<td>1,325</td>
<td>833</td>
<td>535</td>
<td>487</td>
<td>296</td>
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<td>Total, excluding the Sustainable Development Fund</td>
<td>2,090</td>
<td>1,752</td>
<td>757</td>
<td>(1,305)</td>
<td>977</td>
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<td>Sustainable Development Fund</td>
<td>(4,834)</td>
<td>(1,542)</td>
<td>(593)</td>
<td>28,750</td>
<td>1,462</td>
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### Other Data

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<tbody>
<tr>
<td>Allowance for loan and lease losses as a % of total loans and leases</td>
<td>5.0%</td>
<td>5.3%</td>
<td>5.2%</td>
<td>5.1%</td>
<td>5.1%</td>
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<tr>
<td>Net loan loss (recovery) ratio</td>
<td>(0.03%)</td>
<td>0.18%</td>
<td>0.67%</td>
<td>0.32%</td>
<td>0.02%</td>
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<tr>
<td>Capital adequacy ratio, excluding SDF</td>
<td>23%</td>
<td>21%</td>
<td>20%</td>
<td>20%</td>
<td>24%</td>
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<tr>
<td>Self-sufficiency ratio - financing programs excluding SDF</td>
<td>96%</td>
<td>70%</td>
<td>57%</td>
<td>63%</td>
<td>68%</td>
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supporters

as of June 30, 2004*

INVESTMENTS/EQUITY CONTRIBUTIONS

Individuals
Adina Abramowitz
Carolyne T. Adams
Lucretia Sharp Alderfer
Ruth Nelson Allen
Andrea R. Allan
Evelyn Allyn
Suzanne Anastasi Aloui
Linda S. Altman
Mary Anderson
Robert E. and Margaret B. Anderson
Elizabeth Daniels Anton
Johanna M. Berrigan and Mary Beth Appel
Robert L. Archie, Jr.
Ina Elfant Asher
John and Ellen Asma
Vibeke P. Lichten and John and Ellen Asma
Rebekah Beth Cook-Mack
Ann Frances Cook
Marcia J. Coleman
Ann Frances Cook
Rebekah Beth Cook-Mack
Robert L. and Michelle H. Cooney, Jr.
Randall Copeland
Betsy S. Corkran
Matthew T. and Elizabeth Corso
Robert Coughlin
Juliana Bussiere
Daniel B. Butler
Mary M. Butler
Peter L. Buttenweiser
Miriam Byron
James and Barbara Calkins
Geoffrey E. Campen
Richard L. Canel, Jr.
Pearl M. Carpel
Charles A. Carter, III
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Over this past year, TRF commissioned several young Philadelphia artists to capture our mission through their art. Among the many photographs, sculptures and paintings that have resulted and are displayed throughout our offices, is this striking mural by Michelle Ortiz that graces our reception area.

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