Energy Improvement Corporation

Financial Statements

Year Ended December 31, 2020

Energy Improvement Corporation

Table of Contents

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Independent Auditors' Report

The Board of Directors of the
Energy Improvement Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Energy Improvement Corporation ("Corporation") as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the 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 Corporation'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 in the notes to financial statements, on March 11, 2020, the World Health Organization declared a global pandemic as a result of the spread of COVID-19 "(coronavirus)". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2019 from which the partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
February 16, 2021

The following Management's Discussion and Analysis ("MD&A") of the Energy Improvement Corporation's "EIC" ("Corporation") activities and financial performance is provided as an introduction and overview of the financial statements of the Corporation for the period January 1, 2020 through December 31, 2020. Following this MD&A are the annual financial statements of the Corporation. This MD&A should be read in conjunction with the financial statements to enhance understanding of the Corporation's performance and future outlook. This MD&A highlights certain supplementary information to assist with the understanding of the Corporation's financial operations.

BACKGROUND & MISSION

EIC was formed on July 7, 2011, pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York, as a New York State Public Authority, local development corporation.

The mission of the Energy Improvement Corporation (EIC) is to design and operate successful assessment financing programs to reduce greenhouse gas emissions and provide other environmental public benefits in New York State. EIC is a program administrator and enables a public benefit on behalf of its member municipalities, relieving them of financial exposure and the administrative burdens of operating the program. Improvements are financed by EIC approved capital providers in accordance with EIC's underwriting guidelines and New York State Energy Research and Development Authority's ("NYSERDA's") guidelines. EIC endeavors to create and operate programs which address climate change. EIC's goal is to operate in a self-sufficient manner without subsidies from rate payers.

FINANCIAL OPERATIONS HIGHLIGHTS

A summary of revenues, expenses, and changes in net position for 2020 follows below. Refer to the Corporation's financial statements for the complete Statement of Activities.

Operating revenues	$ 1,867,300
Less: Operating expenses	(1,517,447)
Income from operations	349,853
Less: Non-operating expenses	-
Change in Net Position	349,853
Net Position - beginning of year	944,497
Net Position - end of year	$ 1,294,350

Overview of the Financial Statements

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The objective of these standards is to enhance the understandability and usefulness of the external financial reports issued by Public Authorities.

The financial statement presentation consists of a Statement of Net Position, a Statement of Activities, a Statement of Cash Flows and accompanying Notes to Financial Statements. These statements provide information on the financial position of the Corporation and the financial activity and results of its operations during the year. A description of these statements follows:

The Statement of Net Position presents information on all the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The Statement of Activities presents information showing the change in the Corporation's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement include items that will result in cash received or disbursed in future fiscal periods (e.g., the receipt of amounts due from other governments or the payment accrued for compensated absences).

The Statement of Cash Flows provides information on the major sources and uses of cash during the year. The cash flow statement portrays net cash provided or used from operating, investing, capital and non-capital financing activities, if applicable.

BUSINESS ACTIVITIES AND OPERATIONS – 2020

SIGNIFICANT ACCOMPLISHMENTS

In 2019, EIC closed its prior C-PACE effort. All prior local laws and municipal agreements had to be replaced to allow EIC to enable the public benefit of OPEN C-PACE. To facilitate the new program design, EIC engaged new counsel and materially revised its management team. The new CEO and COO worked with the EIC C-PACE Advisory Committee to perfect a program that is desired by both Municipalities and Capital Providers.

In 2020, EIC continued restructuring by ending participation in the residential program to focus on its core operation, OPEN C-PACE. Headcount reductions and improved alignment of resources will contribute to EIC's mission of being self-sustaining by 2022.

Accomplishments in 2020 fall into four general categories: (1) aligning resources with value added functions for the enterprise; (2) significantly contributing to the successful passage of an amendment to Article 5L allowing C-PACE for new construction; (3) completing 6 financings totaling $19.6 million with total projected CO2 reductions of 2,578 metric tons; (4) enrolling 26 municipalities around the state.

NEW PACE PROGRAM KNOWN AS “OPEN C-PACE”

Financing is provided to commercial property owners by EIC approved capital providers, allowing for competitive private financing. The financing is secured by using the member municipality’s ability to place a voluntary energy assessment and assignable subordinate lien on the owner’s property. EIC bills the property owner and directs them to remit the funds to the capital provider. As the program administrator, EIC will continue to review and approve each financing ensuring it conforms with the New York State PACE statute, EIC underwriting requirements, and NYSERDA C-PACE guidelines.

MUNICIPAL ACTIVITY RELATED TO “OPEN C-PACE”

In order to enable OPEN C-PACE, municipalities have to pass a local law and sign a municipal agreement with EIC. Under this program, a municipality is no longer responsible for administering the PACE repayment collection process, nor is it required to backstop borrower payments. These factors, as well as the prospect of closing larger projects, has resulted in widespread acceptance of OPEN C-PACE in New York.

PREVIOUS PACE PROGRAM CLOSED TO NEW FINANCING (KNOWN AS “ENERGIZE NY PACE 2.0”)

The Corporation began offering PACE 1.0 to its member municipalities late in 2014 and replaced it with PACE 2.0, which modified some requirements thought to have been impeding uptake of the program. Generally, both the 1.0 and 2.0 programs were New York State’s version of PACE financing that enabled eligible not-for-profits and commercially owned buildings access to financing for energy efficiency upgrades and renewable energy projects. Since program inception in 2014, 20 projects totaling $2,865,376 in PACE financings have been completed. This program was closed to new financings in February 2019.

Loan Loss Reserves

The Corporation had established reserves totaling $678,218 originating from federal, state and internal sources. The Corporation also has a $500,000 NY Green Bank Letter of Credit (“GBLOC #1”) issued to the Corporation to provide reserve support to protect the Corporation’s creditors and municipal members. This Letter of Credit is valid through July 31, 2021.

MUNICIPAL MEMBERSHIP & MEMBER SERVICES

Enlisting municipalities in OPEN C-PACE involves outreach and discussion with municipal staff and/or elected officials, and other local stakeholders. EIC provides the template Local Law and Municipal Agreement, and other template documents that are requested once the municipality opts-in (Municipal Certificate, Opinion of Local Counsel, and Lien Filing Letter). EIC answers questions from municipal staff, presents at legislative meetings as necessary, and facilitates the review of the draft membership documents. For Members with pending transactions, EIC confers with the County Clerk’s office to confirm that lien filing documents are in acceptable form and that EIC will not be charged recording fees. EIC also collaborates with municipalities that opt-in to promote OPEN C-PACE in their communities.

In 2020, EIC enrolled 26 municipalities in its OPEN C-PACE program, including 12 counties, 9 cities, and 5 towns. An additional 1 county, and 1 city adopted the local law to enable Open C-PACE. As of December 31, 2020, 60 municipalities joined the PACE program.

At the end of 2015, the Corporation established the Municipal Tax Delinquency Fund ("MTDF"), a service to provide the Corporation's member municipalities with a ready source of funds during the pendency of a delinquent tax charge payment associated with a PACE financing. Because a member is required under its PACE 2.0 Municipal Agreement with the Corporation to pay all tax charges associated with PACE financings regardless of whether it collects the charge from the property owner receiving the financing, the member will need to replace missing tax revenues from other sources if a property owner does not pay the tax charge when due. Participation in the MTDF is optional at the election of the municipal member and requires the municipality to sign a separate agreement governing the MTDF and pay an annual fee. The MTDF is funded by a 0.25% fee charged on PACE financings beginning in 2016 and a $5 million letter of credit ("LOC#2"), from NY Green Bank (valid through July 31, 2021). In December 2018, the letter of credit was reduced to $1 million and in December 2020, the letter of credit was further reduced to $500,000. At the end of 2020, the value of the MTDF, less the LOC, was $4,732, and no municipalities have elected to participate in the MTDF.

ENERGIZE NY RESIDENTIAL

Energize NY Residential was an energy efficiency program operating under the auspices of the Energy Improvement Corporation. During 2020, the Energize NY Residential staff operated two Clean Heating and Cooling Community Campaigns in Westchester and Orange Counties. The objective of these campaigns was to significantly ramp up the rate of clean heating and cooling system adoption and energy efficiency upgrades, displace fossil fuel-based systems, and to lower emissions. Coordination of work was augmented by engagement with organizations on the state, regional and local level to coordinate support to homeowners. Collaborating organizations included: utilities, NYSERDA, CBOs, higher education institutions, numerous chambers of commerce, and municipalities and their corresponding Conservation Advisory Councils and Sustainability Groups.

Energize NY Residential utilized the community campaign model to significantly increase New York homeowner energy efficiency project adoption. The core components of community campaigns are municipal support, trusted source partnership, a list of vetted local contractor-partners, educational events, customized community-based marketing (online and print) and direct homeowner support (email, phone and in-person). This program ended on December 31, 2020.

GRANTS, BUSINESS ACTIVITIES

The Corporation's operating expenses for the year 2020 were $1,517,447, 69% of which were covered by grant funds that were awarded to the Corporation by the New York State Energy Research Development Authority ("NYSERDA"). The balance of expenses was funded by revenues earned from financing activities.

In early 2018, the Corporation was awarded two contracts totaling $275,000 (PON 3723), one for Westchester County, New York and one for Orange County, New York, under NYSERDA's Clean Heating and Cooling Communities Campaigns Program. As of December 31, 2020, the Corporation realized $221,434 from this grant.

In 2019, the Corporation signed contract # 134735 with NYSERDA in conjunction with a grant issued by the Communities chapter of the Clean Energy Fund (CEF). This grant focuses on implementing a commercial PACE program in New York State. Under this agreement, effective

January 1, 2019, the Corporation is being reimbursed for program operating expenses up to $3,690,000 over a 3-year period. The Corporation received $2,833,210 as of December 31, 2020.

BUSINESS OUTLOOK

2020 was a pivotal year at EIC. Despite the negative impact of COVID 19 on the commercial real estate sector, EIC facilitated six transactions totaling $19.6 million.

2021 is expected to bring additional financings as the result of new construction eligibility for C-PACE increasing both deal frequency and size. EIC expects to see a significant increase in CO2 reductions as a result of a well-structured program allowing EIC to meet its goal of being self-sustaining by 2022.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This report is intended to provide a broad overview of the Corporation's finances to its citizens and other stakeholders. If you desire additional information or have suggestions for improving this report, please contact:

Susan Morth
Chief Executive Director
Energy Improvement Corporation
2875 Route 35
Katonah, New York 10536

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Energy Improvement Corporation

Statements of Net Position
December 31,

	2020	2019
ASSETS		
Current assets		
Cash and equivalents	$ 585,509	$ 300,673
Grants receivable (Note 4)	134,177	84,708
Prepaid expenses	4,144	10,558
Total Current Assets	723,830	395,939
Noncurrent assets		
Restricted cash (Notes 4 and 6)	748,559	770,767
Financing receivables (Note 5)	2,304,960	2,460,142
Security deposits	5,000	5,000
Reserve fund (Note 7)	25,000	25,000
Total Noncurrent Assets	3,083,519	3,260,909
Total Assets	3,807,349	3,656,848
LIABILITIES		
Current liabilities		
Accounts payable	960	31,723
Other current liabilities	168,843	176,054
Bonds payable, due within one year (Notes 3 and 5)	143,872	161,378
Total Current Liabilities	313,675	369,155
Noncurrent liabilities		
Bonds payable (Notes 3 and 5)	2,199,324	2,343,196
Total Liabilities	2,512,999	2,712,351
NET POSITION		
Restricted	$ 1,294,350	$ 944,497

See notes to financial statements

Energy Improvement Corporation

Statements of Activities
Years Ended December 31,

	2020	2019
OPERATING REVENUES		
Grant income (Note 4)	$ 1,399,546	$ 1,732,544
Financing fees	438,416	216,422
Miscellaneous	29,338	38,757
Total Operating Revenues	1,867,300	1,987,723
OPERATING EXPENSES		
Salaries	881,505	927,457
Employee benefits	163,382	200,923
Consulting	60,639	50,314
Legal fees (Note 8)	165,403	446,348
Insurance	33,009	33,081
Rent	20,738	28,116
Finance costs	60,393	31,909
Interest	97,155	111,000
Information technology	8,308	16,070
Administrative	26,915	100,611
Total Operating Expenses	1,517,447	1,945,829
Change in Net Position	349,853	41,894
NET POSITION		
Beginning of Year	944,497	902,603
End of Year	$ 1,294,350	$ 944,497

See notes to financial statements.

Energy Improvement Corporation

Statements of Cash Flows
Years Ended December 31,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grant income	$ 1,350,077	$ 1,833,248
Receipts from financing and miscellaneous revenues	467,754	255,179
Payments to employees and vendors	(1,549,007)	(1,917,213)
Net Cash from Operating Activities	268,824	171,214
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal paid on bonds	(161,378)	(146,200)
Financing receivables issued	155,182	148,125
Net Cash from Non-Capital and Related Financing Activities	(6,196)	1,925
Net Change in Cash and Equivalents	262,628	173,139
CASH AND EQUIVALENTS		
Beginning of Year	1,096,440	923,301
End of Year	$ 1,359,068	$ 1,096,440
Cash and equivalents	$ 585,509	$ 300,673
Restricted cash	748,559	770,767
Reserve fund	25,000	25,000
Total Cash and Equivalents	$ 1,359,068	$ 1,096,440
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$ 349,853	$ 41,894
Adjustments to reconcile income from operations to net cash from operating activities		
Grants receivable	(49,469)	100,704
Prepaid expenses	6,414	427
Accounts payable	(30,763)	(11,022)
Security deposits	-	(5,000)
Other current liabilities	(7,211)	44,211
Cash Flows from Operating Activities	$ 268,824	$ 171,214

See notes to financial statements.

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Note 1 - Organization and Purpose

The Energy Improvement Corporation ("Corporation") (“EIC”), was incorporated in July 2011 as defined in subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation Law and is a Type C corporation under Section 201 of the Not-for-Profit Corporation Law. The mission of the EIC is to design and operate a successful assessment financing programs to reduce greenhouse gas emissions and provide other environmental public benefits in New York State. EIC is a program administrator and enables a public benefit on behalf of its member municipalities, relieving them of financial exposure and the administrative burdens of operating the program. Improvements are financed by EIC approved capital providers in accordance with EIC’s underwriting guidelines and New York State Energy Research and Development Authority’s (“NYSERDA”) guidelines. EIC endeavors to create and operate programs which address climate change. EIC’s goal is to operate in a self-sufficient manner without subsidies from rate payers.

The Corporation is managed by a Board of Directors consisting of nine directors. Revised Bylaws of the Corporation were voted on March 25, 2020.

The Corporation offers its OPEN C-PACE program to its municipal members. New York State municipalities can become a member by passing a Local Law and signing a Municipal Agreement. Sixty municipalities have completed the process required to join the Corporation as of the end of 2020.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of the Corporation conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Corporation reports its operations on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Corporation’s principal ongoing operations. Grant income represents 75% of the operating revenue of the Corporation. Operating expenses include salaries and related benefits, contractual costs, professional fees and administrative expenses. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

Cash and Equivalents, Investments and Risk Disclosure

Cash and Equivalents - Cash and cash equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

The Corporation’s deposit and investment policies are governed by State statutes. The Corporation has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The Corporation is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit.

Note 2 - Summary of Significant Accounting Policies (Continued)

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The Corporation has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Investments - Permissible investments include obligation of the U. S. Treasury, U.S. Agencies, repurchase agreements, obligations of other municipal entities or its political subdivisions and investment agreements.

EIC follows the provisions of GASB Statement No. 72, *"Fair Value Measurements and Application",* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in the active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Risk Disclosure

Interest Rate Risk - Interest rate risk is the risk that the Corporation will incur losses in fair value caused by changing interest rates. The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Corporation does not invest in any long-term investment obligations.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. GASB Statement No. 40, *"Deposit and Investment Risk Disclosures – and amendment of GASB Statement No. 3"* directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Corporation's name. The Corporation's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk as of December 31, 2020.

Credit Risk - Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Corporation does not have a formal credit risk policy other than restrictions to obligations allowable under the General Municipal Law of the State of New York.

Concentration of Credit Risk - Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Corporation's investment policy limits the amount on deposit at each of its banking institutions.

Note 2 - Summary of Significant Accounting Policies (Continued)

Receivables

Receivables consist of amounts due from corporations and other governments. Receivables are recorded as earned or as specific program expenses are incurred. Allowances are recorded when appropriate.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method.

Bonds Payable

The Corporation records bonds payable at face value. Bond premiums and discounts are deferred over the life of the bonds. Bond issuance costs are expensed as incurred.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2020, no amounts were required to be reported as deferred outflows/inflows of resources.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted only when there are limitations imposed on its use. The net position of the Corporation is classified as partially restricted since some related reserves constituting the net position originated from Department of Energy ("DOE") grant funds and use of these reserve funds are restricted by the terms of the original DOE grant agreement, and by financing agreement with Banc of America.

Use of Estimates

The preparation of the 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 the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 ("coronavirus") pandemic and the mitigation responses, and such differences may be material. (See Note 10.)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is February 16, 2021.

Note 3 - Detailed Notes

Bonds Payable

The following table summarizes changes in the Corporation's long-term indebtedness for the year ended December 31, 2020:

	Balance January 1, 2020	Maturities and/or Payments	Balance December 31, 2020	Due Within One Year
Bonds payable	$ 2,504,574	$ 161,378	$ 2,343,196	$ 143,872

Bonds payable as of December 31, 2020 comprise the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rate	Amount Outstanding at December 31, 2020
Subseries 2	2016	$ 23,615	October, 2030	4.3748 %	$ 17,515
Subseries 3	2016	1,643	October, 2030	4.3748	1,289
Subseries 4	2016	348,479	April, 2036	4.7080	307,608
Subseries 5	2016	19,366	April, 2036	4.7080	17,094
Subseries 6	2016	204,102	October, 2025	3.5769	124,390
Subseries 7	2016	23,639	October, 2027	3.5922	16,346
Subseries 8	2017	238,076	April, 2037	4.7263	217,808
Subseries 9	2016	103,508	October, 2036	4.5175	89,348
Subseries 10	2016	47,314	October, 2036	4.5175	42,490
Subseries 11	2016	72,850	October, 2036	4.2510	62,719
Subseries 12	2016	4,361	October, 2036	4.2510	3,904
Subseries 13	2016	11,911	April, 2034	3.5800	10,085
Subseries 14	2017	78,489	October, 2036	3.6700	69,412
Subseries 15	2017	92,440	April, 2029	3.3172	73,886
Subseries 16	2017	166,654	October, 2036	3.9263	147,974
Subseries 17	2017	394,727	October, 2036	4.4700	340,378
Subseries 18	2017	34,651	October, 2036	4.4700	30,970
Subseries 19	2018	62,011	April, 2037	4.7105	55,624
Subseries 20	2018	18,428	April, 2037	4.4848	16,504
Subseries 21	2018	64,515	April, 2037	4.4009	57,754
Subseries 22	2018	28,797	April, 2037	4.4706	25,791
Subseries 23	2018	163,542	April, 2022	3.0160	68,697
Subseries 24	2018	412,728	October, 2037	4.5362	383,325
Subseries 25	2018	174,734	October, 2037	4.5352	162,285
		$ 2,790,580			$ 2,343,196

Note 3 - Detailed Notes (Continued)

Payments to Maturity

The annual requirement to amortize all bonded debt outstanding as of December 31, 2020 including interest payments of $931,457 are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	$ 143,872	$ 100,471	$ 244,343
2022	150,832	94,466	245,298
2023	121,504	88,993	210,497
2024	127,574	83,799	211,373
2025	146,698	78,044	224,742
2026-2030	619,599	308,950	928,549
2031-2035	728,044	161,749	889,793
2036-2037	305,073	14,985	320,058
	$ 2,343,196	$ 931,457	$ 3,274,653

Note 4 - Grants

The Corporation's operating expenses for the fiscal year 2020 were $1,517,447, 69% of which were covered by grant funds that were awarded to the Corporation by the New York State Energy Research Development Authority ("NYSERDA"). The balance of expenses was funded by revenues earned from financing activities.

In early 2018, the Corporation was awarded two contracts totaling $275,000 (PON 3723), one for Westchester County, New York and one for Orange County, New York, under NYSERDA's Clean Heating and Cooling Communities Campaigns Program. As of December 31, 2020, the Corporation realized $221,434 from this grant.

In 2019, the Corporation signed contract # 134735 with NYSERDA in conjunction with a grant issued by the Communities chapter of the Clean Energy Fund ("CEF"). This grant focuses on implementing a commercial PACE program in New York State. Under this agreement, effective January 1, 2019, the Corporation is being reimbursed for program operating expenses up to $3,690,000 over a 3-year period. The Corporation received a total of $2,833,210 and realized $1,225,658 from this grant in 2020.

Note 5 - Financing Receivables - Banc of America and KeyBank Financing Arrangements

As each financing is completed, EIC records a long-term financing receivable (due from the municipality collecting the repayment form the property owner, regardless of collection by the municipality) and the corresponding long-term debt or bond payable. EIC realizes one-time revenues through application and other fees charged at the time a financing is completed and recurring revenues based on a spread on the interest rate charged on financings. These revenues are used to help fund EIC's operations.

Note 5 - Financing Receivables - Banc of America and KeyBank Financing Arrangements (Continued)

Banc of America

After closure of former programs, PACE 1.0 and PACE 2.0 in February 2019, the Corporation cancelled its agreement with Banc of America. Several bonds are outstanding as of December 31, 2020 with a balance of $2,343,196. The Corporation will continue to service the bonds until maturity.

The Corporation's outstanding bonds payable from direct borrowings and direct placements related to governmental activities (EIC's PACE loans) of $2,343,196 contain a provision that in an event of default, outstanding amounts become immediately due if the Corporation is unable to make a payment. The risk of default is mitigated by the municipal agreement that EIC signed with each municipality, which obligates the municipality to backstop the eventual nonpayment from the property owners. Furthermore, restricted cash in the amount of $748,559, as well as the Letter of Credit of $500,000, can be used for payment to bond holders.

KeyBank

After closure of PACE former programs 1.0 and PACE 2.0 in February 2019, the Corporation cancelled its Warehouse Line of Credit agreement with KeyBank.

The Corporation has a $150,000 Demand Line of Credit with KeyBank which is used to fund operations. As of December 31, 2020 no amounts were outstanding under this line of Credit.

Note 6 - Restricted Cash and Dedicated Assets-Loan Loss Reserve Accounts

As of December 31, 2020, the Corporation had restricted cash in the amount of $748,559. The cash is restricted in accordance with terms of the Bond Indenture and related agreements with Banc of America.

The Corporation has established multiple reserves sourced primarily from original DOE grant funds. DOE financing guidelines allow for 50% of Better Building Award funds to be used for a loan loss reserve. Funds that return to a grantee (e.g. the Corporation) as principal and interest repayment, or are released once a loan backed by a reserve is repaid, may be used for another eligible purpose or returned to the Federal government as outlined in DOE notice 09-002D. US Bank is the custodian of these funds under the terms of the custody agreement signed by the Corporation.

The $748,559 includes $152,351 in DOE grant funds awarded to Orange County, New York, which have been transferred to the Corporation and deposited into a separate Orange County Reserve account. Funds transferred to the Orange County Reserve account are restricted to protect Orange County and the Corporation's debt holders from defaults or claims arising from commercial property financings made by the Corporation in Orange County.

$525,868 is classified as a 'Municipality Reserve" to protect the Corporation's creditors and municipal members from claims or defaults arising from financings made by the Corporation to property owners. The remaining $70,340 is dedicated as restricted cash with US Bank for the benefit of bondholders.

Note 6 - Restricted Cash and Dedicated Assets-Loan Loss Reserve Accounts (Continued)

The Corporation also has a $500,000 letter of credit with NY Green Bank ("GBLOC #1"), which was issued to the Corporation to provide loan loss reserve support to protect the Corporation's creditors and municipal members from claims or defaults relating to financings made by the Corporation to property owners in municipalities. GBLOC #1 is valid through July 31, 2021.

As of December 31, 2020, no amounts were outstanding on this line of Credit.

Note 7 - Green Bank Letter of Credit ("LOC") #2

The NY Green Bank, a division of NYSERDA, issued an irrevocable standby letter of credit ("GBLOC #2") dated December 23, 2015 (valid through July 31, 2021) to the Corporation in the amount of $5 million to be used as needed to fund a Municipal Tax Delinquency Fund ("MTDF") established by the Corporation to protect the participating municipalities from the cash flow risk arising from the non-payment of a financing charge by a property owner receiving financings from the Corporation. A municipality that wishes to participate in the MTDF will be required to sign an MTDF agreement with the Corporation and to pay an annual participation fee. Annual participation fees will be paid directly to NY Green Bank and returned to the Corporation for further payment to the municipality to the extent that a municipality does not withdraw anything from the fund in a given year. Under the terms of the agreement, a municipality will be entitled to draw on the MTDF in the event of default by a Corporation financing customer within that municipality.

As a condition to NY Green Bank's issuance of the GBLOC #2, the Corporation paid $25,000 in December of 2015 to NY Green Bank to be held in "the Reserve Fund" at the New York State Department of Taxation and Finance for the future benefit of NY Green Bank in the event of a default by the Corporation under GBLOC #2. The balance in "the Reserve Fund" as of December 31, 2020 and 2019 is $25,000. NYSERDA has reimbursed the Corporation for this disbursement under the terms of the Cleaner Greener Market Transformation Project grant. The Corporation is required to repay NYSERDA annual fees (calculated based on drawn and undrawn funds) for these funds and any fees paid by the Corporation to NY Green Bank under the GBLOC #2 using funds other than grant awards from NYSERDA or any other New York State agency. In December 2018, the GBLOC #2 was reduced to $1 million and in December 2020, the letter of credit was further reduced to $500,000.

Note 8 - Legal Expenses

As part of the Corporation's process to maintain and improve their OPEN C-PACE program, the Corporation has incurred $165,403 in legal expenses as of December 31, 2020. These expenses also include regular counsel fees.

Note 9 - Risk Management

The Corporation purchases various conventional insurance coverages to reduce its exposure to loss. The Corporation maintains general liability insurance coverage with a general aggregate policy limit of $2 million with each occurrence limit of $1 million. The auto policy provides coverage up to $1 million. The Corporation also maintains liability insurance for directors and officers with policy limits of $5 million each policy year. Bankers Professional Liability Insurance provides $1 million in aggregate coverage with a $1 million limit per claim. There is also an umbrella policy with coverage up to $1 million. The Corporation purchases conventional workers' compensation insurance with coverage at statutory limits.

Note 10 - Contingencies

Coronavirus

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the spread of the spread of Coronavirus. The Corporation's operations and finance performance may be affected by the recent coronavirus outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the Corporation may experience a disruption in operations. The outbreak is likely to adversely affect the Corporations financial conditions on an interim basis.

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

The Board of Directors of the
Energy Improvement Corporation

We have audited, in accordance with the 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, the financial statements of the Energy Improvement Corporation ("EIC") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements, and have issued our report thereon dated February 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
February 16, 2021