Energy Improvement Corporation

Financial Statements

December 31, 2013

Energy Improvement Corporation

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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, 2013, 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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, 2013, 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.

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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2014 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 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. In addition, we have also issued our report on compliance with Section 2925 of the New York State Public Authorities Law, dated March 22, 2014. The purpose of that report is to describe our testing of compliance with Section 2925 of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated March 22, 2014 on our consideration of the Corporation's compliance with Section 2925(3)(1) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 22, 2014

Energy Improvement Corporation

Management's Discussion and Analysis
Year Ended December 31, 2013

The following Management's Discussion and Analysis ("MD&A") of the Energy Improvement Corporation's ("EIC") activities and financial performance is provided as an introduction and overview of the financial statements of EIC for the period January 1, 2013 through December 31, 2013. Following this MD&A are the annual financial statements of EIC together with the notes to the financial statements. This MD&A should be read in conjunction with the financial statements, to enhance understanding of the EIC's performance and future outlook. This MD&A highlights certain supplementary information to assist with the understanding of the EIC's financial operations.

BACKGROUND & MISSION

The 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 EIC's purpose and quasi-public objective is to promote the public good, and thereby lessen the burdens of government in the Participating Municipalities, and act in the public interest. The Corporation will achieve this purpose by providing low-cost financing and community-based support for energy efficiency programs and alternative or distributed energy generating facilities for residents and businesses in the Participating Municipalities as authorized in Article 5-L of the General Municipal Law of New York.

In pursuit of said purposes, the Corporation has powers in furtherance of the policy of the State to achieve statewide energy efficiency and renewal energy goals, reduce greenhouse gas emissions, mitigate the effect of global climate change, advance a clean energy economy through the deployment of renewable energy systems and energy efficiency measures throughout the State by municipalities in fulfilling an important public purpose in providing financing to property owners for the installation of renewable energy systems and energy efficiency measures.

FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of revenues, expenses, and changes in net position for 2013 are summarized below. Refer to the EIC's financial statements for the complete Statement of Activities.

Ordinary Income/Expense:	
Income	
Charges for Services	$ 398,516
Other Program Income	582,274
Miscellaneous	200
Total Operating Revenues	980,990
Expense	
Salaries	$ 369,586
Payroll Taxes	24,870
Legal fees	5,600
Miscellaneous	4,201
Total Expense	404,257
Change in Net Position	576,733
Net Position - Beginning of Year	-
Net Position - End of Year	$ 576,733

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the EIC 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 EIC 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 of the EIC's assets and liabilities, 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 EIC is improving or deteriorating.

The *Statement of Activities* presents information showing the change in the EIC'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.

BUSINESS ACTIVITIES & OPERATIONS-2013

The EIC along with its partners developed the Energize New York Program (ENY) (www.energizeny.org) to encourage property owners to undertake energy efficiency improvements for their buildings. The Program was focused initially on residential properties, but was extended in late 2013 to commercial structures. ENY programs include marketing and outreach for Residential and Commercial buildings in EIC's Member Communities and Property Assessed Clean Energy Financing (PACE) for commercially owned buildings undertaking energy related upgrades. An upgrade to reduce energy wasted through sub-standard insulation, insufficient airsealing and inefficient heating, mechanical and lighting appliances or the installation of renewable sources of energy can result in energy savings of greater than 30%.

Working with local municipal leaders, community groups and the New York State Energy Research and Development Authority (NYSERDA), ENY seeks to turn energy related building upgrades into a new social norm.

ENY is designed to transform how energy efficiency upgrades are marketed and financed in an effort to increase participation rates beyond those experienced in other communities. ENY addresses specific barriers i.e., such as upfront cost, trust and confidence in contractors, complexity of upgrade process, which have hampered existing upgrade programs. Energize has partnered with established local groups that residents know and trust to engage them in energy upgrade efforts. This has created robust pipelines of residential energy efficiency projects and upgrade projects in the Commercial building stock.

ENY has developed a local, partner-based strategic marketing campaign to leverage the many local organization partners and assist in gaining the trust and acceptance of homeowners with respect to home energy efficiency upgrades and create the model that will be scaled beyond the Northern Westchester Energy Action Consortium (www.NWEAC.org) partner communities and municipalities and into the rest of the state. As one example, Orange County, New York recently joined EIC and is preparing for a major roll out of the Energize (PACE) Finance program in early 2014.

Studies have shown that homeowners have difficulty finding contractors whom they trust who also are accredited (and therefore experienced) to perform energy efficiency audits and upgrades. The Energize Residential Program has established a partnership with NYSERDA to leverage its existing BPI accredited contractor base and it's Home Performance with Energy Star program in an effort to boost contractor trust and confidence. Working with NYSERDA, the Energize Program offers homeowners detailed, web-based information and a participant-driven rating system for contractors, akin to Consumer Reports. Since 2011 when Energize New York was launched, it is calculated that $5,787,448 in economic activity has been generated from the upgrading of 457 homes resulting in the creation of 64 job years, annual energy savings of $578,745 and the equivalent reduction of 190 cars from the road.

EIC commenced offering Property Assessed Clean Energy financing ("PACE") (Energize NY Finance) benefits to commercially owned properties late in 2013. New York State's PACE enabling legislation (found in General Municipal Law Article 5-L, sections 119 ee, ff, gg) permits the financing of efficiency upgrades (typically air sealing, insulation and upgrades to heating and cooling systems) and installation of certain renewable energy systems. Re-payment is made through a special tax charge on the benefited property's tax bill to be collected and enforced by EIC's member Municipalities. See further discussion under "EIC's PLANNED SCOPE OF ACTIVITIES FOR 2014".

EIC's operating expenses for the year 2013 were $1,143,879 of which $404,257 was paid for by EIC and $739,622, consisting of $437,419 in transfers to the Loan Loss Reserves and $302,203 in Marketing, Information Technology and General Administration costs, were paid for by the Town of Bedford on behalf of EIC using federal and state grant funds that were awarded to the Town of Bedford to start and fund the Energize Program. The Town of Bedford created EIC on July 7, 2011 to be the vehicle through which to operate the Energize Program, and continues to fund all but EIC's personnel and compensation expenses no later than November 1, 2014. This date represents an extension of the original grant funding extension date of September 30, 2013.

Based on EIC's adopted budget for 2014, EIC will utilize all funds remaining from the original $2,535,728 Department of Energy grant by November 1, 2014. At that point in time, EIC's operations will be funded from other sources described below.

EIC's PLANNED SCOPE OF OPERATIONS AND FINANCING ACTIVITIES FOR 2014

EIC continues to operate its' ENY Residential Program with its' focus on scaling the demand for residential energy efficiency improvements. EIC continues to pursue grant funds from various foundations and others to support the residential program.

EIC is significantly expanding its' Commercial energy efficiency and improvement program. This program will provide attractive financing to existing Commercial buildings (both industrial type facilities as well as multi-family residential buildings). EIC has adopted a budget based on gross commercial program financings totaling $15,600,000 in 2014.

Qualified Energy Conservation Bonding Authority

EIC recently received a transfer from Westchester County of a minimum of just under $4,000,000 in Federal Qualified Energy Conservation Bonding ("QECB") authority. Due to favorable federal subsidy, which substantially reduces the interest costs to the borrower below market rates, EIC anticipates selling this $4,000,000 in financing of Commercial projects in the 1st half of 2014. An additional $4,000,000 in QECB authority could potentially be awarded to EIC from Westchester County later in 2014.

Additionally, EIC is exploring the transfer of unused QECB bonding authority from other governmental entities throughout New York State.

$3,000,000 in 1st Niagara Line of Credit Secured

In November of 2013, EIC entered into a Warehouse Line of Credit agreement with 1st Niagara Bank. This line of credit will be used to provide initial capital to EIC's commercial energy efficiency and improvement program. At 1st Niagara's discretion, the initial $3,000,000 Line of Credit can be increased to an eventual total of $12,000,000. Interest costs to EIC under this arrangement can fluctuate with general market changes in interest rates. EIC was also awarded an additional $300,000 Operating Line of Credit.

In accordance with the terms of this agreement, EIC also established a $150,000 Loan Loss Reserve transferred from Dept. of Energy grant funds. See further discussion under notes to the financial statements.

Long Term Financing Strategy

Since financings of commercial projects by EIC can extend up to 20years, EIC has developed a long term financing strategy to protect itself from unforeseen interest rate increases which could negatively impact the profitability of its long term municipal receivables. EIC anticipates the periodic issuance of bonds to lock in long-term interest rates and concurrently replace borrowings from 1st Niagara as EIC's portfolio grows. EIC has retained the services of the PFM Group, a leading independent municipal finance advisory firm, to help it evaluate the various alternative long term financing strategies.

Loan Loss Reserves

As part of the long term financing strategy, and in accordance with the agreement with 1st Niagara, EIC has established Loan Loss Reserves totaling $582,000 (includes the $150,000 dedicated to 1st Niagara) sourced from the original DOE grant. In addition, NYSERDA has awarded a $500,000 Letter of Credit to EIC which will provide loan loss reserve support to protect EIC's creditors and municipal members from claims or defaults arising relating to financings made by EIC to property owners in municipalities with a population greater than 30,000. In the event that EIC issues Notes or Bonds, NYSERDA's Letter Of Credit can be used in connection with supporting a portion of the bond debt service funds or any claims made on those reserves.

EIC will be funding the Loan Loss reserves from lending activity with the goal of improving EIC's credit rating and securing a resulting anticipated decrease in interest costs.

Additional Anticipated Funding Sources

EIC is aggressively pursuing additional grant funding from both government entities and private foundations. NYSERDA has given preliminary approval for $975,000 in grant funds to support the EIC Commercial program in 2014 and 2015. Anticipated deliverables to NYSERDA include a program to add municipal members to EIC's' roster, financing large industrial and commercial projects and helping to drive demand for NYSERDA's programs and services.

CONTACTING THE EIC'S FINANCIAL MANAGEMENT

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

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OR

Mark Thielking
Chairman
Energy Improvement Corporation
321 Bedford Rd
Bedford Hills, New York 10507

Energy Improvement Corporation

Statement of Net Position
December 31, 2013

ASSETS	
Cash and equivalents	$ 59
Restricted cash	582,274
Total Assets	582,333
LIABILITIES	
Accounts payable	5,600
NET POSITION	
Restricted	$ 576,733

See notes to financial statements

Energy Improvement Corporation

Statement of Activities
Year Ended December 31, 2013

OPERATING REVENUES	
Charges for services	$ 398,516
Other program income	582,274
Miscellaneous	200
Total Operating Revenues	980,990
OPERATING EXPENSES	
Salaries	369,586
Payroll taxes	24,870
Legal fees	5,600
Miscellaneous	4,201
Total Operating Expenses	404,257
Income from Operations	576,733
NET POSITION	
Beginning of Year	-
End of Year	$ 576,733

See notes to financial statements

Energy Improvement Corporation

Statement of Cash Flows
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from charges for services	$	404,316
Payments to employees and vendors		(404,257)
Other program income		582,274
Net Cash from Operating Activities		582,333
Net Change in Cash and Equivalents		582,333
CASH AND EQUIVALENTS		
Beginning of Year		-
End of Year	$	582,333
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Loss from operations	$	576,733
Adjustments to reconcile income from operations to net cash from operating activities		
Accounts Payable		5,600
Cash Flows from Operating Activities	$	582,333

See notes to financial statements

Note 1 - Organization and Purpose

The Energy Improvement Corporation ("Corporation") 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 Corporation is to save money and energy by reducing greenhouse gas emissions in Northern Westchester, and perhaps beyond, by enabling energy and related improvements that meet or exceed State standards through innovative community based outreach and marketing efforts. In addition, it will be a purpose of the Corporation to facilitate and finance qualified energy efficiency improvement projects and renewable energy system projects for residents, organizations, institutions and businesses in participating municipalities in New York while operating in a financially self sufficient manner.

The Corporation is managed by a Board of Directors consisting of twelve Members; Towns of Bedford, Greenburgh, Lewisboro, North Salem, Ossining, Pound Ridge, Somers and Yorktown; Village of Croton-on-the Hudson; Cities of Peekskill and White Plains and Orange County. The Town of Bedford, New York shall be a member of the Corporation for at least 10 years from the effective date of the Corporation, and the chief executive officer of the Town of Bedford, New York, shall be a member of the Board of Directors of the Corporation while the Town of Bedford, New York is a member.

The income of the Corporation is exempt from Federal, State and local income taxes. Revenues for 2013 were from the Town of Bedford grant awards from the U.S. Department of Energy and New York State Research Development Authority.

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 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 applies all applicable Financial Accounting Standards Board ("FASB") guidance issued in accounting and reporting for its operations ("FASB").

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted only when there are limitations imposed on its use. The net position of the Corporation is classified as unrestricted.

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.

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 March 22, 2014.

Note 3 - Other Matters

The Corporation in conjunction with the Town of Bedford, New York ("Town"), the primary contractor, received Federal grants and grants from the New York State Energy Research and Development Authority ("NYSERDA") to develop and promote the mission of the Corporation through the Energize New York Program. In 2013, the Corporation expended $404,257 on personnel, legal and miscellaneous costs and the Town expended $739,622 consisting of $437,419 in transfers to the Loan Loss Reserves and $302,203 on Marketing, Information Technology and General Administration costs, all funded through these grants.

Warehouse Line of Credit with 1st Niagara

In November of 2013, the Corporation entered into a Warehouse Line of Credit agreement with 1st Niagara Bank. This line of credit, with an initial term of three years, will be used as initial capital to finance the Corporation's commercial energy efficiency and improvement program. At 1st Niagara's discretion, the initial $3,000,000 Line of Credit can be increased annually by an additional $3,000,000 up to an eventual total of $12,000,000. Interest costs to the Corporation under this arrangement can fluctuate with general market changes in interest rates. The interest rate on outstanding balances is calculated at 2.75% plus the 30 day British Libor rate. Interest is payable monthly. The Corporation's intent is to repay outstanding draw downs with a long-term Corporation Bond issue.

The Corporation was also awarded an additional $300,000 Demand Line of Credit which must be paid down to $120,000 for a period of 30 consecutive days once every twelve months. The Line of Credit is an unsecured Line of Credit with interest only payable monthly.

As of December 31, 2013, $5,600 was payable to 1st Niagara. This amount represented loan closing costs which occurred late in Nov. 2013.

In accordance with the terms of this agreement, the Corporation also established a $150,000 Loan Loss Reserve account at US Bank to benefit 1st Niagara Bank. The Reserve fund was funded from Department of Energy ("DOE") grant funds. The Corporation must adhere to its underwriting standards which include financing only improvements to commercially owned property and operating municipalities with a credit rating of A or better as defined by recognized national credit agencies.

To further secure amounts lent by 1st Niagara to the Corporation, 1st Niagara, the Corporation and US Bank have entered into a Custody Agreement with US Bank. Under the terms of the Custody Agreement with US Bank, after municipalities that collect the loan repayment Tax Charge added to a benefitted property owner's tax bill, they directly remit those funds to a dedicated Loan Repayment Account at US Bank.

The Corporation has no access to funds within the Loan Repayment Account held in trust for the benefit of 1st Niagara Bank until semi-annual interest and principal have been paid on the outstanding balance with 1st Niagara Bank. Principal repayment and interest are remitted to 1st Niagara Bank in accordance with the terms of the Custody Agreement every January 15th and July 15th.

Restricted Cash and Dedicated Assets-Loan Loss Reserve Accounts

At December 31, 2013, the Corporation has restricted cash in the amount of $582,274. The cash is restricted in accordance with terms of the agreement with 1st Niagara Bank. The Corporation has established Loan Loss Reserves totaling $582,274 sourced from original DOE grant funds. US Bank is the Custodian of these funds under the Terms of the Custody Agreement signed with 1st Niagara and the Corporation.

Note 3 - Other Matters (Continued)

The $582,274 includes $150,000 dedicated to 1st Niagara from DOE "Topic 2" grant funds, $287,419 from the NYSERDA Better Buildings "Topic 1" award (Source: DOE grant funds). Also included is $144,855 in DOE grant funds originally awarded to Orange County, N.Y. 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 debt holders from defaults or claims arising relating from commercial property financings made by the Corporation in Orange County.

The $287,419 is classified as a 'Small Municipality Reserve" to protect the Corporation's creditors and municipal members from claims or defaults arising relating to financings made by the Corporation to property owners in municipalities with a population under 30,000.

In addition, NYSERDA has issued a Letter of Credit to the Corporation providing $500,000 in Loan Loss Reserves for large municipalities to protect the Corporation's creditors and municipal members from claims or defaults arising relating to financings made by the Corporation to property owners in municipalities with a population greater than 30,000.

When the $500,000 Letter of Credit is added to the $582,274 in actual Loan Loss Reserve funds on deposit with US Bank, the amount of Loan Loss protection available to the Corporation, its' member municipalities and its' lenders totals $1,082,274.

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., Corporation) as principal and interest repayment, or are released once a loan backed by a Loan Loss Reserve is repaid, may be used for another eligible purpose or returned to the Federal government as outlined in DOE notice 09-002D. Grantees may shift returning principal and interest from funds released from a Loan Loss Reserve between financing mechanisms as needed, a long as funds are used for another eligible activity under the DOE award.

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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 ("Corporation") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 22, 2014.

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") to determine 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 determination of financial statement amounts. 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.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 22, 2014

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Independent Accountants' Report on Compliance with Section 2925 of the New York State Public Authorities Law

The Board of Directors of the
Energy Improvement Corporation

We have examined the Energy Improvement Corporation's ("Corporation") compliance with Section 2925 of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended December 31, 2013. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the period ended December 31, 2013.

This report is intended solely for the information and use of management, the Board of Directors, officials of the Town of Bedford, New York and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 22, 2014