Energy Improvement Corporation

Financial Statements

December 31, 2015

Energy Improvement Corporation

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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, 2015, 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 opinion.

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, 2015, 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 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 17, 2016 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.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated March 17, 2016 on our consideration of the Corporation's compliance with Section 2925(3)(f) 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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 17, 2016

Energy Improvement Corporation

Management's Discussion and Analysis
Year Ended December 31, 2015

The following Management's Discussion and Analysis ("MD&A") of Energy Improvement Corporation's ("the Corporation") activities and financial performance is provided as an introduction and overview of the financial statements of the Corporation for the period January 1, 2015 through December 31, 2015. Following this MD&A are the annual financial statements of the Corporation 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 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

The Corporation 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 Corporation's purpose and quasi-public objective is to promote the public good and thereby lessen the burdens of government in those municipalities that have joined the Corporation as members (Participating Municipalities), and to act in the public interest. The Corporation achieves this purpose by providing low-cost financing and community-based support for energy efficiency and renewable energy upgrades for New York State ("State") residents and businesses in the Participating Municipalities as authorized in Article 5-L of the General Municipal Law ("GML") of New York State.

In furtherance of the State's energy policy to achieve statewide energy efficiency and renewable 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, the Corporation is empowered by its member municipalities to provide financing to property owners for the installation of renewable energy systems and energy efficiency measures. The Corporation has two areas of focus: (1) Energize NY ("ENY") marketing and outreach services through ENY Commercial, ENY Residential and Solarize Westchester, and (2) financing services for qualified properties through ENY Finance.

The Corporation's objective is to increase energy efficiency in buildings to reduce energy use and costs, support and develop the local economy, and improve the quality of life (health, safety, comfort, and air quality) of community participants. The Corporation seeks a market transformation that dramatically increases the adoption of renewable energy and building energy efficiency upgrades from a historically low baseline of less than 1% of New York buildings to a significantly higher concentration in the Corporation's areas of operation.

The Corporation increases the number of energy assessments and clean energy upgrades in its member municipalities by: (1) leveraging the State's Property Assessed Clean Energy ("PACE") law to offer ENY Finance capital to building owners to finance their energy upgrades ("ENY Finance"); (2) engaging with commercial property owners and energy service companies to facilitate clean energy projects ("ENY Commercial"); (3) engaging with local municipal and community leader to launch and support clean energy programs ("ENY Member services"); (4) deploying a tested toolkit that supports residential homeowners with building upgrades and includes a robust community based marketing effort, web services and social media ("ENY Residential").

FINANCIAL OPERATIONS HIGHLIGHTS

A summary of revenues, expenses, and changes in net position for 2015 follows below. Refer to the Corporation's financial statements for the complete Statement of Activities.

Income	$ 1,392,538
Less: Operating expenses	(1,369,475)
Income from operations	23,063
Less: Non-operating expenses	(1,100)
Change in Net Position	21,963
Net Position - beginning of year	735,848
Net Postion - end of year	$ 757,811

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 of the Corporation'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 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 & OPERATIONS - 2015

SIGNIFICANT ACCOMPLISHMENTS IN 2015

Work accomplished in 2015 falls into three general categories: 1) increased municipal memberships in the Corporation, 2) the build out of ENY Finance, ENY Commercial, ENY Residential and Solarize Westchester and 3) securing and leveraging investments and funding in the Corporation's continued development and expansion.

THE CORPORATION MEMBERSHIP & MEMBER SERVICES

With the launch of ENY's Finance Program in late 2014 and additional resources from the New York State Energy Research and Development Authority ("NYSERDA") in mid-2014 and late 2015, the Corporation is responding to requests about the Corporation membership from over two-dozen counties and cities throughout the State. The Corporation's Municipal Membership team has segmented the list of potential members into four tiers within all regions of the State including 21 Counties and 10 Cities representing 66% of the non-New York City population of the State.

In 2015, the Corporation added 10 new members, bringing the total number of members to 24 as of the end of 2015. Since the beginning of 2013, 29 municipalities have passed the Local Law needed to join the Corporation and activate ENY programs.

The Corporation launched its Member Services effort in the second quarter of 2014 and increased its efforts in 2015. Municipal members have access to the Corporation's tools and staff to design a range of marketing, outreach and training programs that best match the goals and characteristics of each member community. Beyond those basic services, the Corporation staff can provide strategic advice on accessing and developing additional assets that further leverage ENY services such as leveraging unused Federal Qualified Energy Conservation Bond ("QECB") bonding authority. While at the broadest level, the Corporation provides ENY Finance, ENY Commercial and ENY Residential services, the specific services offered to property owners in each community are driven by local economic development, energy and sustainability goals and by the availability of targeted funding streams.

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 an ENY financing. Because a member is required under its municipal agreement with the Corporation to pay all tax charges associated with ENY financings regardless of whether or not it collects the charge from the property owner receiving the financing, the member will need to source 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 will be funded by a 0.25% fee charged on NY financings beginning in 2016 and a $5 million letter of credit from NY Green Bank that the Corporation closed at the end of 2015.

ENERGIZE NY FINANCE

ENY Finance created the State's version of "PACE" financing, a transformative product that enables eligible not-for-profits and commercially owned buildings access to project financing for deep energy efficiency upgrades and renewable energy projects. In order to offer ENY Finance to their residents, municipalities must pass a local law that activates Article 5-L of the NYS General Municipal Law and enables a property owner to pay for energy improvements through a special tax bill charge to the property for that purpose. This ensures access to low cost capital with up to 20-year loan terms, automatic transferability and other benefits that increase the value of the property while reducing energy costs.

The Corporation began offering ENY Finance to its member municipalities late in 2014 after securing a $3 million warehouse capital line from First Niagara Bank. The Corporation completed its first project financing in March 2015.

The Corporation completed three additional financings in 2015 in the amount of $243,442 for a total of $318,238 in financed projects. The Corporation committed to finance two additional projects totaling $470,000 in financings and expects to close those financings in the first quarter 2016. An additional 40 projects were in process as of early 2016 totaling $14 million in potential financings. The Corporation has adopted a 2016 budget targeting gross commercial program financings of $4.8 million in 2016.

Long Term Financing Strategy

Since energy project financings can extend up to 20 years, the Corporation has developed a long-term financing strategy of issuing bonds to pay off its First Niagara short-term warehouse line of credit, thereby mitigating the risk of volatile interest rate movements. In 2014, the Corporation retained the services of the PFM Group, a leading independent municipal financial advisory firm, to help manage these risks and develop request for proposals ("RFP") to seek participation by financing services provider(s) to assist the Corporation with final structuring and the offering of longer term bonds to replace draws made on the First Niagara (or future) lines of credit, and/or directly purchasing the Corporation's obligations secured by the State GML Article 5-L tax charges. In 2015, Bank of America Capital Corp. ("Bank of America") committed to purchase up to $75 million of the Corporation's long-term bonds. The Corporation anticipates continuing to issue bonds periodically to lock in long-term interest rates as the Corporation's financing portfolio grows.

The Corporation Lending Capital:

The Corporation has secured a total of $78 million in capital from Bank of America and First Niagara. In November 2013, the Corporation entered into a Warehouse Line of Credit agreement with First Niagara Bank. This $3 million line of credit is used to provide initial capital to the Corporation's ENY Finance Program. Interest costs to the Corporation under this arrangement can fluctuate with general market changes in interest rates.

In April 2015, the Corporation completed its agreement with Bank of America to secure an additional $75 million of capital for projects needing ENY financing. The Corporation issues longer term bonds to Bank of America and uses the proceeds to pay off its obligations to First Niagara under the Warehouse Line of Credit.

The Corporation is issuing bonds periodically to Bank of America to lock in long-term interest rates as the Corporation's portfolio grows. The Corporation issued its first bond to Bank of America in April 2015 in the amount of $74,796 with a maturity date of October 1, 2020. The Corporation issued its second bond in January, 2016 in the amount of $252,998, containing multiple sub-series, with terms ranging from 10 to 20 years. These bonds are secured by tax charges attached to the financed properties real estate tax bills as authorized by the State GML Article 5-L.

Loan Loss Reserves

As part of the long term financing strategy, and in accordance with the agreements with First Niagara and Bank of America, the Corporation has established reserves totaling $644,855 originated from federal sources. The Corporation also has a $500,000 NY Green Bank Letter of Credit ("GBLOC #1") 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 with a population greater than 30,000. This Letter of Credit is valid through July 31, 2018.

The Corporation will be providing additional funding to its reserves from lending activities, with the goal of improving the Corporation's credit standing and building a larger municipal loss reserve.

As the Corporation adds to its reserves through on-going financing operations, existing reserve funds may be re-deployed back to the Corporation for purposes outlined in the original U.S. Department of Energy grant which expired in 2014.

The Westchester Project – Leveraging Qualified Energy Conservation Bonding Authority

In late 2013, the Corporation received authority to use a minimum of just under $4 million in available "QECB" authority from Westchester County. This favorable federal subsidy substantially reduces the interest costs to the borrower to below market rates. Westchester County has instructed the Corporation to offer this capital to affordable housing facilities and not-for-profits contemplating energy upgrades to their buildings. An additional $4 million in QECB authority could potentially be awarded to the Corporation from Westchester County. Additionally, the Corporation is exploring the transfer of unused QECB bonding authority from other the Corporation members throughout New York State.

Project Financings:

As of January 2016, ENY had closed or committed to finance eight clean energy projects totaling over $1 million in financings including upgrades to two affordable housing facilities, a community house, a religious institution and two small businesses. ENY has preliminary applications for $14 million of financing from 40 applicants. Additionally, over 75 projects are prospectively considering financing for upgrades and 20 projects totaling over $7 million of energy work have expressed interest in the Westchester QECB Project.

ENERGIZE NY COMMERCIAL

ENY Commercial supports and provides outreach to commercial and not-for-profit property owners in member communities. The ENY Commercial team assists local property owners with navigating NYSERDA and utility incentive programs, completing the ENY Finance pre-application and application forms, finding a certified building appraiser, securing construction loan financing, accessing qualified contracting and engineering firms and design teams, assembling required documents, obtaining lender consent, and providing third party analysis of the financial impact of the proposed project. In order to further bolster investor and building owner confidence, the Corporation also helps facilitate Measurement and Verification ("M&V") services to track the actual realized energy savings of buildings over time. Since late 2013, when the Corporation hired its first ENY Commercial employee, over 200 projects have been assisted with 40 currently considered active. The mix of projects includes multi-family and commercial and Industrial buildings that have deferred action on energy-related upgrades for years. The work being contemplated ranges from lighting and furnace upgrades to solar photovoltaic installations. In addition, ENY has offered training for contractors/energy service companies to encourage and enable better integration of PACE financing's advantages into their sales efforts. Since mid-2014, the ENY Commercial team has held 15 training sessions with over 130 energy service firms and over 200 individuals attending, resulting in over 90 ENY Finance Partners that are now qualified to offer ENY Finance to their clients.

ENERGIZE NY RESIDENTIAL PROGRAM

ENY Residential provides direct support to communities looking to reduce energy wasted in homes. An average New York home wastes about 30% of the energy used to heat and cool it. Methods to fix this issue are well understood, but homeowners are confused by the choices of contractors, programs, and energy options. ENY Residential staff and local community partners help homeowners take advantage of the State's "comprehensive energy assessment" to identify where the home is wasting energy, help them identify State certified energy efficiency contractors, State incentives and financing options and offer homeowners free energy coach consultations. Ultimately, homeowners throughout the community make their homes more comfortable while significantly reducing energy costs. Throughout 2015, ENY Residential operated within the 13 communities located in the Northern Westchester Energy Action Consortium (NWEAC) territory.

GRANTS, BUSINESS ACTIVITIES AND THE 2016 AND 2017 OUTLOOK

The Corporation's operating expenses for the year 2015 were $1,369,475 substantially all of which were covered by grant funds that were awarded to the Corporation by the New York State Energy Research Development Authority ("NYSERDA") to fund the expansion of ENY. The balance of expenses was funded through revenues earned on financing activities.

Throughout 2015, the Corporation continued to operate in part under the terms of the NYSERDA Existing Facilities Program ("EFP") $975,000 grant awarded in 2014. As of December 31, 2015, the Corporation had incurred $889,582 in expenses in accordance with the terms of this grant.

In the third quarter of 2015, the Corporation finalized an agreement ("the Cleaner Greener Market Transformation Project") with NYSERDA whereby NYSERDA would fund the Corporation's efforts to continue to expand ENY Finance, Commercial and Residential efforts beyond Northern Westchester throughout the Mid-Hudson and Central Regions of New York State. Under this agreement, effective May 1, 2015, the Corporation is being reimbursed for program operating expenses up to $3 million. This agreement extends until Dec. 31, 2017.

During 2015, the Corporation continued to serve as the general contractor for the NYSERDA sponsored "Westchester Solarize Initiative". This initiative with an original contract value of $485,000 commenced in 2014 and is scheduled to be completed in 2016. It is focused on eliminating the municipal barriers, including zoning regulations, that were or are a bar to the establishment of solar energy installations in both residential and small commercial properties.

In addition, in first quarter of 2016, the Corporation signed another three-year agreement with NYSERDA, known as "PON 2646, the NYSERDA Behavioral Demonstrations Program", whereby ENY Residential will be launching programs in three communities in the Central Hudson Utility territory demonstrating how the social norming components of the ENY Residential model affect behavior and allow for economic choices to be made related to home performance energy efficiency improvements. This contract has a value of $497,000.

Deliverables to NYSERDA under the various grants include adding municipalities and counties to the Corporation's membership; the build-out of ENY Finance; supporting property owners and energy service providers; financing of multi-family, industrial and commercial projects, including affordable housing facilities; and expanding ENY Residential in the Mid-Hudson and Central Regions of the State.

Business Outlook - the Corporation's mission and ultimate success will hinge on successfully moving past the current focus on the grant deliverables and leveraging the Corporation's infrastructure, legal framework and processes to deliver finance and support services determined to be essential to the goals of the Corporation's members, building owner clients and stakeholders.

While the ENY Residential Program will continue to provide a high level of direct homeowner support within certain NWEAC communities and to a limited number of other, member-based communities throughout the Mid-Hudson and Central Regions of the State, significantly expanding the ENY Commercial Program and ENY Finance Program will be the highest priority in 2016 to allow for internally driven revenue to become the primary source of funding for all ENY programs.

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:

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Energy Improvement Corporation

Statement of Net Position
December 31, 2015

ASSETS	
Current assets	
Cash and equivalents	$ 1,188
Grants receivable (Note 4)	243,326
Total Current Assets	244,514
Noncurrent assets	
Restricted cash (Note 6)	647,752
Financing receivables (Note 5)	318,238
Reserve fund (Note 7)	25,000
Total Noncurrent Assets	990,990
Total Assets	1,235,504
LIABILITIES	
Current liabilities	
Demand line of credit (Note 5)	156,999
Warehouse line of credit (Note 5)	243,442
Other current liabilities	2,456
Bonds payable, due within one year	6,786
Total Current Liabilities	409,683
Noncurrent liabilities	
Bonds payable (Note 3)	68,010
Total Noncurrent Liabilities	68,010
Total Liabilities	477,693
NET POSITION	
Restricted	$ 757,811

See notes to financial statements

Energy Improvement Corporation

Statement of Activities
Year Ended December 31, 2015

OPERATING REVENUES	
Grant income (Note 4)	$ 1,371,213
Financing revenues (Note 4)	21,325
Total Operating Revenues	1,392,538
OPERATING EXPENSES	
Salaries	529,034
Employee benefits	99,348
Consulting	90,253
Legal fees (Note 8)	134,819
Administrative costs	178,661
Payments to grant subcontractors (Note 4)	337,360
Total Operating Expenses	1,369,475
Income from Operations	23,063
NON-OPERATINGE REVENUES (EXPENSES)	
Interest expense	(1,100)
Change in Net Position	21,963
NET POSITION	
Beginning of Year	735,848
End of Year	$ 757,811

See notes to financial statements

Energy Improvement Corporation

Statement of Cash Flows
Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grant income	$ 1,403,325
Receipts from financing income	21,325
Payments to employees and vendors	(1,118,518)
Payments to grant subcontractors	(337,360)
Net Cash from Operating Activities	(31,228)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bonds issued	74,796
Interest paid	(1,100)
Repayments of loans	(99,984)
Line of credit issued	400,441
Financing receivables	(318,238)
Net Cash from Capital and Related Financing Activities	55,915
Net Change in Cash and Equivalents	24,687
CASH AND EQUIVALENTS	
Beginning of Year	649,253
End of Year	$ 673,940
Cash and cash equivalents	$ 1,188
Restricted cash	647,752
Reserve fund	25,000
Total cash and equivalents	$ 673,940
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES	
Income from operations	$ 23,063
Adjustments to reconcile income from operations to net cash from operating activities	
Grants receivable	32,112
Prepaid expenses	3,873
Other current liabilities	(90,276)
Cash Flows from Operating Activities	$ (31,228)

See notes to financial statements

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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 New York State 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 not-for-profit, 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 nine directors. The Board transitioned to a staggered Board consisting of nine seats representing the Corporation's municipal membership in 2015. Each director elected beginning in 2016 will serve a three-year term with the exception of the Chief Executive Officer of the Town of Bedford whose term expires in 2021. As stated in the Corporation's bylaws, only the Chief Executive Officer or Chief Fiscal Officer of member municipalities is eligible to serve on the Board.

Energize NY helps break down the barriers to energy saving solutions for building owners in New York. They drive demand for clean energy upgrades through community-based outreach about energy saving opportunities and by providing low cost, long-term financing for projects. Energize NY offers a number of clean energy services in its member communities: Energize NY Commercial, Energize NY Finance, Energize NY Residential and Solarize Westchester. Eligible New York State ("State") municipalities can become a member by passing a local law that enables the municipality to offer Energize NY services. Since the beginning of 2013, 29 municipalities have passed the Local Law needed to join the Corporation and activate Energize NY and as of the end of 2015, 24 municipalities have joined the Corporation.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with maturities of three months or less at the time of purchase.

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. The Corporation is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements, obligations of other municipal entities or its political subdivisions and investment agreements, and accordingly, the Corporation's policy provides for no credit or interest rate risk on investments.

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.

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 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 at December 31, 2015.

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.

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.

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 restricted since the 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 agreements with First Niagara and Bank 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.

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 17, 2016.

Note 3 - Detailed Notes

The following table summarizes changes in the Corporation's long-term indebtedness for the year ended December 31, 2015:

	Balance January 1, 2015	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2015	Due Within One Year
Bonds payable	$ -	$ 74,796	$ -	$ 74,796	$ 6,786

Bonds Payable

Bonds payable at December 31, 2015 are comprised of the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rate	Amount Outstanding at December 31, 2015
Subseries 1	2015	$ 74,796	October 2020	2.94 %	$ 74,796

Interest expense of $1,100 was recorded in the financial statements.

Payments to Maturity

The annual requirements to amortize all bonded debt outstanding as of December 31, 2015 including interest payments of $7,219 are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	$ 6,786	$ 2,199	$ 8,985
2017	14,011	1,898	15,909
2018	14,619	1,481	16,100
2019	15,253	1,047	16,300
2020	24,127	594	24,721
	$ 74,796	$ 7,219	$ 82,015

Note 4 - Grants

The Corporation has received federal, state and private grants to develop and promote the mission of the Corporation through its Energize NY programs. The Corporation, in conjunction with the Town of Bedford, received a $2,667,728 grant in 2010 from the "DOE" which expired in 2014. The Corporation used part of those funds to establish loan loss reserves that total $647,752 as of December 31, 2015. See Note 6 for further discussion.

In the third quarter of 2015, the Corporation finalized an agreement (the "Cleaner Greener Market Transformation Project") with the New York State Energy Research and Development Authority ("NYSERDA") whereby NYSERDA agreed to fund the Corporation's efforts to continue to expand Energize NY Finance, Commercial and Residential efforts beyond northern Westchester throughout the Mid-Hudson and Central Regions of New York State. Under this agreement, effective May 1, 2015, the Corporation is being reimbursed for program operating expenses up to $3 million. This agreement extends until December 31, 2017. The Corporation realized revenue of $668,250 under this grant in 2015.

The Corporation also continued operating under another NYSERDA grant (the "Existing Facilities Program") having an original value of $975,000. As of December 31, 2015, the Corporation had incurred a total of $889,582 in expenses in accordance with the terms of this grant, $325,331 of which was realized in 2015. This grant has focused on expanding the ENY Commercial and Finance programs across NY State.

In 2015, the Corporation as general contractor, continued to oversee a number of sub-contractors in the implementation of the Solarize Westchester Initiative and realized gross revenue of $364,605 related to this project with payments to subcontractors totaling $337,360.

The Corporation also has executed another agreement with NYSERDA in conjunction with another grant known as the Behavioral Demonstrations Program. This grant will focus on implementing the ENY Residential Program in three municipalities still to be determined in the mid-Hudson region. This program, per the contract signed in February 2016, is anticipated to have $493,138 in funding and a duration of 3.75 years. The Corporation will utilize Bard CEP, RUPCO and Central Hudson as subcontractors to help achieve the grant objectives. The contract allowed the Corporation to claim costs incurred prior to the grant date. Therefore, $13,027 was realized as revenue as of December 31, 2015.

Note 5 - Bank of America and First Niagara Financing Arrangements

Bank of America

As part of the agreement with NYSERDA, the Corporation continues to develop energy improvement-related financing alternatives for New York State's commercial and not-for-profit properties. In furtherance of that objective, in 2015, the Corporation entered into an agreement with Bank of America to provide $75 million of capital to the Corporation to finance energy improvements in buildings owned by commercial entities and not-for-profits.

The terms of the Corporation's financings of clean energy projects range depending upon the useful life of the improvements and the property owner's needs, and can extend up to 20 years. Typically, the Corporation initially funds financings using the First Niagara Warehouse Line of Credit (see further discussion below) and consolidates completed financings on a periodic basis in bond sales to Bank of America. The proceeds of the bond sales are used to pay down the First Niagara Warehouse Line of Credit. The first bond in the amount of $74,796 was sold to Bank of America in April, 2015. As of December 31, 2015, the Corporation had incurred $243,442 of expenses within the Warehouse Line of Credit balance due to First Niagara for which a bond was sold subsequent to year end.

Note 5 - Bank of America and First Niagara Financing Arrangements (Continued)

As each financing is completed, the Corporation records a long term financing receivable (due from the municipality collecting the repayment from the property owner, regardless of collection by the municipality) and the corresponding long term debt or bond payable. The Corporation 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 the Corporation's operations.

First Niagara Bank

In November of 2013, the Corporation entered into a Warehouse Line of Credit agreement with First Niagara Bank. This $3 million line of credit, with an initial term of three years, is used as initial capital to fund the Corporation's financings of commercial energy efficiency and renewable energy projects under its ENY Finance Program. The Corporation repays outstanding balances on this Warehouse Line of Credit with the proceeds from long-term bond issuances to Bank of America and others. As of December 31, 2015, $243,442 was outstanding under the Warehouse Line of Credit. The interest rate is a floating rate equal to the 30-Day LIBOR rate plus 2.75% per annum. The $243,442 was subsequently repaid to First Niagara in January 2016 following the Corporation's secured bond sale to Bank of America in the amount of $252,998.

The Corporation has an additional $300,000 Demand Line of Credit with First Niagara Bank which is used to fund operations. This line must be paid down to $120,000 for a period of 30 consecutive days once every twelve months. The Demand Line of Credit is a line of credit with interest payable only monthly. As of December 31, 2015, $156,999 was payable to First Niagara Bank under the Demand Line of Credit. The interest rate is a floating rate equal to the lender's prime rate per annum.

In accordance with the terms of its lines of credit with First Niagara Bank, the Corporation also established a $150,000 Reserve account at US Bank to benefit First Niagara Bank. The reserve fund was funded from DOE grant funds (Note 4). The Corporation must adhere to its underwriting standards which include financing only improvements to commercially owned properties located in participating municipalities with a credit rating of A or better as defined by nationally recognized credit rating agencies.

To further secure amounts lent by First Niagara Bank to the Corporation, First Niagara Bank, the Corporation and US Bank have entered into a custody agreement with US Bank. Under the terms of the custody agreement with US Bank, municipalities must remit the loan repayment tax charges added to the tax bills of the benefitted properties directly to a dedicated loan repayment account at US Bank. In order to establish the relative rights and interests of Bank of America and First Niagara related to repayment of financings and related collateral, the Corporation, Bank of America, First Niagara and the Trustee (US Bank) entered into an inter-creditor agreement in March, 2015.

The Corporation has no access to funds within the loan repayment account held in trust for the benefit of First Niagara Bank and Bank of America until semi-annual interest and principal have been paid on the outstanding balance with First Niagara Bank and the bonds issued to Bank of America. Principal repayment and interest are remitted to First Niagara Bank and Bank of America in accordance with the terms of an inter-creditor agreement and the custody agreement.

Note 5 - Bank of America and First Niagara Financing Arrangements (Continued)

Minimizing Interest Rate Risk

Given the current low interest rate environment, the Corporation views interest rate risk related to the Demand Line of Credit and Warehouse Line of Credit agreements with First Niagara as negligible.

At the time of initial financings using the First Niagara Warehouse Line of Credit, the Corporation locks its long term interest rate simultaneously with the Corporation's customer and the Bank of America. Due to the frequent repayment of the Corporation's Warehouse Credit Line with First Niagara using proceeds from subsequent sales of bonds to Bank of America, the Corporation views risks from fluctuating interest rates as minimal. The Corporation monitors the financial markets and will institute additional hedging activities if market conditions warrant.

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

At December 31, 2015, the Corporation had restricted cash in the amount of $647,752. The cash is restricted in accordance with terms of the Bond Indenture, Inter-creditor and related agreements with First Niagara Bank and Bank 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. Grantees may shift returning principal and interest from funds released from a reserve between financing mechanisms as needed, as long as funds are used for another eligible activity under the original DOE award.

US Bank is the custodian of these funds under the terms of the custody agreement signed with First Niagara and the Corporation.

The $647,752 includes the $150,000 dedicated as reserves to First Niagara Bank, and $144,855 in DOE grant funds originally 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.

$350,000 is classified as a 'Small 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 in municipalities with a population equal to or less than 30,000.

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 with populations greater than 30,000. GBLOC #1 is valid through July 31, 2018.

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 January 4, 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. The MTDF also will be funded by a fee that the Corporation will impose and collect on all financing commencing during the first quarter of 2016. 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 the 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. To the extent there are insufficient funds in the MTDF, the Corporation will draw down on GBLOC #2 to the extent necessary to fund the disbursement to the 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. 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.

Note 8 - Legal Expenses

As part of the Corporation's process to prepare and finalize a bond indenture, the Corporation has incurred $95,286 in related bond counsel fees as of December 31, 2015.

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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Subsequent Events

The Corporation sold several bonds to Bank of America on January 15, 2016 in the amount of $252,998. The bonds issued are a subseries of the Energize New York Benefit Finance Program Limited Obligation Improvement Bonds, Series 2015A and are as follows:

Bond Series	Interest Rate	Amount
Series 2015A, Subseries 2	4.3748%	$ 23,615
Series 2015A, Subseries 3	4.3748	1,643
Series 2015A, Subseries 6	3.5769	204,102
Series 2015A, Subseries 7	3.5922	23,638
Total		$252,998

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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 ("Corporation") as of and for the year ended December 31, 2015, 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 17, 2016.

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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 17, 2016

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Accountants' Report on Compliance with Section 2925(3)(f) 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(3)(f) 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, 2015. 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, 2015.

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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 17, 2016