Energy Improvement Corporation

Financial Statements

Years Ended December 31, 2023 and 2022

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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the Energy Improvement Corporation ("Corporation"), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 February 2, 2024 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
February 2, 2024

Energy Improvement Corporation

Management's Discussion and Analysis
Year Ended December 31, 2023

The following Management's Discussion and Analysis ("MD&A") of the Energy Improvement Corporation's ("EIC"), ("Corporation") activities and financial performance is provided as an introduction and overview of the financial statements of the Corporation for the period January 1, 2023 through December 31, 2023. Following this MD&A are the annual financial statements of the Corporation. This MD&A should be read in conjunction with the financial statements to enhance understanding of the Corporation's performance and future outlook. This MD&A highlights certain supplementary information to assist with the understanding of the Corporation's financial operations.

BACKGROUND & MISSION

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

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

FINANCIAL OPERATIONS HIGHLIGHTS

A summary of revenues, expenses, and changes in net position for 2023 follows below. Refer to the Corporation's financial statements for the complete Statement of Activities.

	2023	2022
Operating revenues	$ 523,060	$ 1,294,274
Less: Operating expenses	(1,169,097)	(1,326,790)
Operating (loss)/Change in Net Position	(646,037)	(32,516)
Net Position- beginning of year	1,525,158	1,557,674
Net Position- end of year	$ 879,121	$ 1,525,158

Overview of the Financial Statements

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

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

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

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

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

BUSINESS ACTIVITIES AND OPERATIONS – 2023

ACCOMPLISHMENTS & CHALLENGES

EIC's municipal loan programs experienced a significant decrease in lender participation in 2023. A majority of the C-PACE industry worked together in an attempt to pass a significant amendment to Article 5L, which would have expanded the use of the PACE assessment to measures that did not provide energy savings and were not adequately defined or measurable. These same lenders simultaneously stopped financing in NY. Consequently, EIC's business was significantly reduced.

Accomplishments in 2023 include: (1) 3 additional financings totaling $14 million (29 financings totaling $147 million since program inception), these 3 projects include projected lifetime greenhouse gas savings of 8,475 metric tons (not including 1 project qualified through compliance with the NY Stretch Code); (2) enrolling 3 additional municipalities; and (3) adding 3 approved Capital Providers, including 1 bank.

NEW PACE PROGRAM KNOWN AS "OPEN C-PACE"

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

MUNICIPAL ACTIVITY RELATED TO "OPEN C-PACE"

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

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

The Corporation began offering PACE 1.0 to its member municipalities late in 2014 and replaced it with PACE 2.0, which modified some requirements thought to have been impeding uptake of the program. Generally, both the 1.0 and 2.0 programs were New York State's version of PACE financing that enabled eligible not-for-profits and commercially owned buildings access to financing for energy efficiency upgrades and renewable energy projects.

At the end of 2015, the Corporation established the Municipal Tax Delinquency Fund ("MTDF"), a service to provide the Corporation's member municipalities with a ready source of funds during the pendency of a delinquent tax charge payment associated with a PACE financing. Because a member is required under its PACE 2.0 Municipal Agreement with the Corporation to pay all tax charges associated with PACE financings, regardless of whether it collects the charge from the property owner receiving the financing, the member will need to replace missing tax revenues from other sources if a property owner does not pay the tax charge when due. Participation in the MTDF is optional at the election of the municipal member and requires the municipality to sign a separate agreement governing the MTDF and pay an annual fee. The MTDF is funded by a 0.25% fee charged on PACE financings beginning in 2016 and a $5 million letter of credit ("LOC#2"), from NY Green Bank (valid through July 31, 2024). In December 2018, the letter of credit was reduced to $1 million and in December 2020, the letter of credit was further reduced to $500,000. At the end of 2022, the value of the MTDF, less the LOC, was $4,732, and no municipalities have elected to participate in the MTDF.

Since program inception in 2014, 20 projects totaling $2,865,376 in PACE financings have been completed. This program was closed to new financings in February 2019.

Loan Loss Reserves

The Corporation had established reserves totaling $719,952 originating from federal, state and internal sources. The Corporation also has a $500,000 NY Green Bank Letter of Credit ("GBLOC #1") issued to the Corporation to provide reserve support to protect the Corporation's creditors and municipal members. This Letter of Credit is valid through July 31, 2024.

MUNICIPAL MEMBERSHIP & MEMBER SERVICES

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

In 2023, EIC enrolled 3 municipalities in its OPEN C-PACE program, including 1 county, and 2 cities. In addition, 1 county adopted the Local Law. As of December 31, 2023, 75 municipalities completed the legislative process and necessary documents to join the PACE program.

GRANTS, BUSINESS ACTIVITIES

The Corporation's operating expenses for the year 2023 were $1,169,097. The Corporation operated without grants.

BUSINESS OUTLOOK

2024 volumes and the resulting public benefit will be driven by the C-PACE industry's participation in the NY State program. NYSERDA will also play a large role as they have not yet updated their C-PACE guidance to address objections of lenders. In 2024, C-PACE transactions are expected to focus on new construction. EIC will continue to work on expanding our collaboration with the NY Green Bank to increase energy efficiency and renewable measures in the Low-to-Moderate Income sector and opportunity zones.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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

Energy Improvement Corporation

Statements of Net Position
December 31,

	2023	2022
ASSETS		
Current assets		
Cash and equivalents	$ 111,499	$ 795,070
Accounts receivable	9,173	24,078
Prepaid expenses	5,600	7,259
Total Current Assets	126,272	826,407
Noncurrent assets		
Restricted cash (Notes 4 and 6)	880,623	836,278
Financing receivables (Note 5)	1,681,194	1,795,495
Security deposits	5,000	5,000
Reserve fund (Note 7)	25,000	25,000
Total Noncurrent Assets	2,591,817	2,661,773
Total Assets	2,718,089	3,488,180
LIABILITIES		
Current liabilities		
Accounts payable	705	4,765
Other current liabilities	113,289	120,920
Bonds payable, due within one year (Notes 3 and 5)	117,876	112,363
Total Current Liabilities	231,870	238,048
Noncurrent liabilities		
Bonds payable (Notes 3 and 5)	1,607,098	1,724,974
Total Liabilities	1,838,968	1,963,022
NET POSITION		
Restricted	905,623	861,278
Unrestricted	(26,502)	663,880
	$ 879,121	$ 1,525,158

See notes to financial statements

Energy Improvement Corporation

Statements of Activities
Years Ended December 31,

	2023	2022
OPERATING REVENUES		
Financing fees	$ 523,060	$ 1,294,274
OPERATING EXPENSES		
Salaries	788,138	838,755
Employee benefits	132,361	131,843
Consulting	18,573	53,554
Legal fees (Note 8)	-	20,998
Insurance	33,592	31,603
Rent	33,850	33,464
Finance costs	66,436	117,678
Interest	78,137	83,195
Information technology	3,607	3,355
Administrative	14,403	12,345
Total Operating Expenses	1,169,097	1,326,790
Operating (Loss)/ Change in Net Position	(646,037)	(32,516)
NET POSITION		
Beginning of Year	1,525,158	1,557,674
End of Year	$ 879,121	$ 1,525,158

See notes to financial statements.

Energy Improvement Corporation

Statements of Cash Flows
Years Ended December 31,

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from financing and miscellaneous revenues	$ 537,965	$ 1,276,196
Payments to employees and vendors	(1,179,129)	(1,412,256)
Net Cash from Operating Activities	(641,164)	(136,060)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(112,363)	(142,215)
Financing receivables issued	114,301	144,062
Net Cash from Non-Capital and Related Financing Activities	1,938	1,847
Net Change in Cash and Equivalents	(639,226)	(134,213)
CASH AND EQUIVALENTS		
Beginning of Year	1,656,348	1,790,561
End of Year	$ 1,017,122	$ 1,656,348
Cash and equivalents	$ 111,499	$ 795,070
Restricted cash	880,623	836,278
Reserve fund	25,000	25,000
Total Cash and Equivalents	$ 1,017,122	$ 1,656,348
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Loss from operations	$ (646,037)	$ (32,516)
Adjustments to reconcile loss from operations to net cash from operating activities		
Accounts receivable	14,905	(18,078)
Prepaid expenses	1,659	(2,699)
Accounts payable	(4,060)	(2,052)
Other current liabilities	(7,631)	(80,715)
Cash Flows from Operating Activities	$ (641,164)	$ (136,060)

See notes to financial statements.

Note 1 - Organization and Purpose

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

The Corporation is managed by a Board of Directors consisting of nine directors.

The Corporation offers its OPEN C-PACE program to its municipal members. New York State municipalities can become a member by passing a Local Law and signing a Municipal Agreement. Seventy-five municipalities have completed the process required to join the Corporation as of the end of 2023.

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 Equivalents, Investments and Risk Disclosure

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

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

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments - 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.

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

Risk Disclosure

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

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. GASB Statement No. 40, *"Deposit and Investment Risk Disclosures – and amendment of GASB Statement No. 3"* directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Corporation's name. The Corporation's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk as of December 31, 2023 and 2022.

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Bonds Payable

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

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

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

As of December 31, 2023 and 2022, no amounts were required to be reported as deferred outflows/inflows of resources.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted only when there are limitations imposed on its use. The net position of the Corporation is classified as partially restricted since some related reserves constituting the net position originated from Department of Energy ("DOE") grant funds and use of these reserve funds are restricted by the terms of the original DOE grant agreement, and by financing agreement with Banc of America, the balance is 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 February 2, 2024.

Note 3 - Detailed Notes

Bonds Payable

The following table summarizes changes in the Corporation's long-term indebtedness for the year ended December 31, 2023:

	Balance January 1, 2023	Maturities and/or Payments	Balance December 31, 2023	Due Within One Year
Bonds payable	$ 1,837,337	$ 112,363	$ 1,724,974	$ 117,876

Bonds payable as of December 31, 2023 comprise the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rate	Amount Outstanding at December 31, 2023
Subseries 2	2016	$ 23,615	October, 2030	4.3748 %	$ 13,013
Subseries 3	2016	1,643	October, 2030	4.3748	996
Subseries 4	2016	348,479	April, 2036	4.7080	269,874
Subseries 5	2016	19,366	April, 2036	4.7080	14,997
Subseries 6	2016	204,102	October, 2025	3.5769	60,679
Subseries 7	2016	23,639	October, 2027	3.5922	10,515
Subseries 9	2016	103,508	October, 2036	4.5175	76,043
Subseries 10	2016	47,314	October, 2036	4.5175	37,486
Subseries 11	2016	72,850	October, 2036	4.2510	53,256
Subseries 12	2016	4,361	October, 2036	4.2510	3,435
Subseries 14	2017	78,489	October, 2036	3.6700	60,533
Subseries 15	2017	92,440	April, 2029	3.3172	52,577
Subseries 16	2017	166,654	October, 2036	3.9263	129,595
Subseries 17	2017	394,727	October, 2036	4.4700	289,941
Subseries 18	2017	34,651	October, 2036	4.4700	27,296
Subseries 19	2018	62,011	April, 2037	4.7105	49,422
Subseries 20	2018	18,428	April, 2037	4.4848	14,630
Subseries 21	2018	64,515	April, 2037	4.4009	51,151
Subseries 22	2018	28,797	April, 2037	4.4706	22,859
Subseries 24	2018	412,728	October, 2037	4.5362	341,921
Subseries 25	2018	174,734	October, 2037	4.5352	144,755
		$ 2,377,051			$ 1,724,974

Note 3 - Detailed Notes (Continued)

Payments to Maturity

The annual requirement to amortize all bonded debt outstanding as of December 31, 2023 including interest payments of $570,727 are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	$ 117,876	$ 74,459	$ 192,335
2025	136,409	69,464	205,873
2026	103,990	63,990	167,980
2027	110,410	59,422	169,832
2028	111,929	54,603	166,532
2029-2033	599,828	196,374	796,202
2034-2037	544,532	52,415	596,947
	$ 1,724,974	$ 570,727	$ 2,295,701

Note 4 - Grants

In 2019, the Corporation signed contract # 134735 with NYSERDA in conjunction with a grant issued by the Communities chapter of the Clean Energy Fund ("CEF"). This grant focuses on implementing a commercial PACE program in New York State. Under this agreement, effective January 1, 2019, the Corporation is being reimbursed for program operating expenses up to $3,690,000 over a 3-year period. This grant ended in 2021 and the Corporation did not receive any grant or government funding in 2023.

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

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

Banc of America

After closure of former programs, PACE 1.0 and PACE 2.0 in February 2019, the Corporation cancelled its agreement with Banc of America. Several bonds are outstanding as of December 31, 2023 with a balance of $1,724,974. The Corporation will continue to service the bonds until maturity.

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

The Corporation's outstanding bonds payable from direct borrowings and direct placements related to governmental activities (EIC's PACE loans) of $1,724,974 contain a provision that in an event of default, outstanding amounts become immediately due if the Corporation is unable to make a payment. The risk of default is mitigated by the municipal agreement that EIC signed with each municipality, which obligates the municipality to backstop the eventual nonpayment from the property owners. Furthermore, restricted cash in the amount of $880,623, as well as the Letter of Credit of $500,000, can be used for payment to bond holders.

KeyBank

The Corporation has a $150,000 Demand Line of Credit with KeyBank which is used to fund operations. As of December 31, 2023 and 2022 no amounts were outstanding under this Line of Credit.

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

As of December 31, 2023, the Corporation had restricted cash in the amount of $880,623. The cash is restricted in accordance with terms of the Bond Indenture and related agreements with Banc of America.

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

The $880,623 includes $161,726 in DOE grant funds awarded to Orange County, New York, which have been transferred to the Corporation and deposited into a separate Orange County Reserve account. Funds transferred to the Orange County Reserve account are restricted to protect Orange County and the Corporation's debt holders from defaults or claims arising from commercial property financings made by the Corporation in Orange County.

$558,227 is classified as a 'Municipality Reserve" to protect the Corporation's creditors and municipal members from claims or defaults arising from financings made by the Corporation to property owners. The remaining $160,670 is dedicated as restricted cash with US Bank for the benefit of bondholders.

The Corporation also has a $500,000 letter of credit with NY Green Bank ("GBLOC #1"), which was issued to the Corporation to provide loan loss reserve support to protect the Corporation's creditors and municipal members from claims or defaults relating to financings made by the Corporation to property owners in municipalities. GBLOC #1 is valid through July 31, 2024.

As of December 31, 2023 and 2022, no amounts were outstanding on this Letter of Credit.

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

The NY Green Bank, a division of NYSERDA, issued an irrevocable standby letter of credit ("GBLOC #2") dated December 23, 2015 (valid through July 31, 2024) to the Corporation in the amount of $5 million to be used as needed to fund a Municipal Tax Delinquency Fund ("MTDF") established by the Corporation to protect the participating municipalities from the cash flow risk arising from the non-payment of a financing charge by a property owner receiving financings from the Corporation. A municipality that wishes to participate in the MTDF will be required to sign an MTDF agreement with the Corporation and to pay an annual participation fee. Annual participation fees will be paid directly to NY Green Bank and returned to the Corporation for further payment to the municipality to the extent that a municipality does not withdraw anything from the fund in a given year. Under the terms of the agreement, a municipality will be entitled to draw on the MTDF in the event of default by a Corporation financing customer within that municipality.

As a condition to NY Green Bank's issuance of the GBLOC #2, the Corporation paid $25,000 in December of 2015 to NY Green Bank to be held in "the Reserve Fund" at the New York State Department of Taxation and Finance for the future benefit of NY Green Bank in the event of a default by the Corporation under GBLOC #2. The balance in "the Reserve Fund" as of December 31, 2023 and 2022 is $25,000. NYSERDA has reimbursed the Corporation for this disbursement under the terms of the Cleaner Greener Market Transformation Project grant. The Corporation is required to repay NYSERDA annual fees (calculated based on drawn and undrawn funds) for these funds and any fees paid by the Corporation to NY Green Bank under the GBLOC #2 using funds other than grant awards from NYSERDA or any other New York State agency. In December 2018, the GBLOC #2 was reduced to $1 million and in December 2020, the letter of credit was further reduced to $500,000. No municipalities have elected to participate in the MTDF.

Note 8 - Legal Expenses

As part of the Corporation's process to maintain and improve their OPEN C-PACE program, the Corporation has incurred $0 in legal expenses as of December 31, 2023.

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.

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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 Auditors' 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, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 2, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") as a basis for designing 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. 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 or significant deficiencies may exist that were not identified.

PKF O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Harrison, NY 10528 I Tel: 914.381.8900 I Fax: 914.381.8910 I www.pkfod.com

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 disclosed no 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 results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
February 2, 2024