Energy Improvement Corporation

Financial Statements

December 31, 2014

Energy Improvement Corporation

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O'CONNOR DAVIES

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Independent Auditors' Report

The Board of Directors of the
Energy Improvement Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Energy Improvement Corporation ("Corporation") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

O'CONNOR DAVIES, LLP
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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, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015 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 23, 2015 on our consideration of the Corporation's compliance with Section 2925(3)(1) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 23, 2015

Energy Improvement Corporation

Management's Discussion and Analysis
Year Ended December 31, 2014

The following Management's Discussion and Analysis ("MD&A") of Energy Improvement Corporation's ("EIC") activities and financial performance is provided as an introduction and overview of the financial statements of EIC for the period January 1, 2014 through December 31, 2014. Following this MD&A are the annual financial statements of EIC together with the notes to the financial statements. This MD&A should be read in conjunction with the financial statements, to enhance understanding of EIC's performance and future outlook. This MD&A highlights certain supplementary information to assist with the understanding of EIC'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.

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

In pursuit of said purposes, the Corporation has powers in furtherance of the policy of the State to achieve statewide energy efficiency and 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 throughout the State. Municipalities fulfill these state policies and an important public purpose by providing financing to property owners for the installation of renewable energy systems and energy efficiency measures.

FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of revenues, expenses, and changes in net position for 2014 are summarized below. Refer to the EIC's financial statements for the complete Statement of Activities.

INCOME	
Grant Income	$ 617,434
Other Program Income	74,000
Miscellaneous	688
Total Income	$ 692,122
EXPENSES	
Salaries	$ 235,763
Payroll Taxes	24,398
Legal Fees	173,813
Administrative Fees	99,033
Total Expenses	533,007
Change in Net Position	159,115
NET POSITION	
Beginning of Year	576,733
End of Year	$ 735,848

Overview of the Financial Statements

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

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

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

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

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

BUSINESS ACTIVITIES & OPERATIONS - 2014

Energize New York Program

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

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

ENY is designed to transform how energy efficiency upgrades are marketed and financed in an effort to increase participation rates beyond those experienced in other communities. ENY addresses specific barriers which have hampered existing upgrade programs such as upfront cost, trust in the efficacy of the upgrade and confidence in contractors and the upgrade process, which have hampered existing upgrade programs.

ENY operates through a local, partner-based strategic marketing campaign to leverage local organization connections to the community and assists in gaining the trust and acceptance of homeowners with respect to upgrades. ENY is scaling this campaign beyond Westchester County into the rest of New York State. Other counties in New York State, including Orange, have joined EIC and are implementing the roll out of the ENY (PACE) Finance program. Efforts are underway to enroll additional counties around New York State.

Studies have shown that homeowners have difficulty finding contractors whom they trust who are also accredited (and therefore experienced) to perform energy efficiency audits and upgrades. The Energize Residential Program has established a partnership with NYSERDA to leverage its existing Building Performance Institute (BPI) accredited contractor base and it's Home Performance with Energy Star program in an effort to boost contractor trust and confidence. Working with NYSERDA, the Energize Program offers homeowners detailed, web-based information and a participant-driven rating system for contractors, akin to Consumer Reports. Since its launch in 2011, ENY has generated $8,200,000 in local economic activity from the upgrading of 640 homes resulting in the creation of 95 job years, annual energy savings of $1,300,000 and the annual reduction of 1290 MTCO2 GHG emissions.

Energize NY Finance & Commercial Programs

EIC commenced offering "PACE" Finance benefits to commercially owned properties located in New York State in late 2013 through its Energize NY Finance Program. New York State's PACE enabling legislation (found in General Municipal Law Article 5-L, sections 119 ee, ff, gg) permits the financing of efficiency upgrades (typically air sealing, insulation and upgrades to heating and cooling systems) and installation of certain renewable energy systems, such as solar. Re-payment is made through a special tax charge on the benefited property's tax bill to be collected and enforced by EIC's member Municipalities. In 2014, EIC continued to work with various municipalities in Westchester County and county governments throughout New York State to obtain passage of individual local laws which would further expand the ENY Finance program to additional counties and cities across New York. See further discussion under "EIC's PLANNED SCOPE OF ACTIVITIES FOR 2015".

As part of EIC's roll-out of ENY, EIC has hosted a series of training programs for contractors in Westchester and beyond. EIC is also exploring strategic performance-based partnerships with larger contractors that already have critical mass in the marketplace to increase EIC's pipeline of commercial and financing projects.

Grants Awarded to the Energy Improvement Corporation

EIC's operating expenses for the year 2014 were $533,007. In addition, $301,953 was paid for by the Town of Bedford on behalf of EIC using federal and state grant funds that were awarded to the Town of Bedford to start and fund ENY Programs. The Town of Bedford created EIC on July 15, 2011 to be the vehicle through which to operate the Energize NY Programs and continued to fund EIC's programs.

During the first half of 2014, EIC utilized all funds remaining from the original $2,535,728 Department of Energy (DOE) grant, $500,000 of which was used to establish reserve accounts, to benefit creditors and municipalities that experience a loss with respect to financings. See "EIC Planned Financing Activities for 2015" below for additional discussion.

In Q2 of 2014, EIC signed an agreement with NYSERDA whereby NYSERDA would fund EIC's efforts to expand EIC's Commercial PACE Finance programs throughout New York State. Under this agreement, EIC is being reimbursed for program operating expenses up to $975,000 over approximately a two year period. Deliverables to NYSERDA include a program to add municipalities and counties to EIC's' membership, the final build-out of the ENY PACE Program infrastructure and financing of industrial and commercial projects, including affordable housing, while helping to drive demand for NYSERDA's

Existing Facilities Program ("EFP") and related services. This grant is projected to continue through Q3 of 2015.

Significantly, In Q4 of 2014, New York State announced (as part of its Economic Development Program) a $3,000,000 award to EIC to further the expansion of Energize NY's suite of programs relating to both Residential and Commercial structures in the Mid-Hudson Valley and Central Regions of New York State. It is anticipated that this new program will complement the current EFP funding.

In 2014, NYSERDA selected EIC to serve as the general contractor, overseeing a number of subcontractors in the implementation of the "Westchester Solar Initiative". The goal of Westchester Solar Initiative is to eliminate municipal barriers including zoning regulations that currently are a bar to the establishment of solar energy installations in both residential and small commercial properties.

EIC also received $50,000 in 2014 from the Deutsche Bank Americas Foundation and the Open Space Institute to further EIC's efforts to provide financing for multi-family unit affordable housing through the issuance of Qualified Energy Conservation Bonds ("QECB") and other financing programs.

EIC's PLANNED SCOPE OF OPERATIONS & FINANCING ACTIVITIES FOR 2015

EIC continues to operate its ENY Residential Program with a focus on scaling the demand for residential energy efficiency and renewable energy improvements. EIC continues to pursue grant funds from various foundations and others to support its residential, commercial and finance programs.

2014 was a year of transition, as EIC added staff and ramped up its efforts to build a pipeline of commercial energy efficiency and clean energy projects that are expected to be financed in 2015. EIC significantly expanded its Commercial energy efficiency and renewable energy improvement program.
It is anticipated that the recent $3,000,000 NYSERDA award will further increase EIC's scope of operations in ENY's Residential, Commercial and Finance sectors.

Federal Qualified Energy Conservation Bonding ("QECB") Authority

In 2014, EIC received a transfer from Westchester County of a minimum of just under $4,000,000 of the County's $8,000,000 allocation of Federal "QECB" Authority funds. Due to a favorable federal interest rate subsidy in the form of a rebate, this substantially reduces the interest costs to the borrower to below market rates.

Additionally, EIC continues to explore the transfer of unused QECB bonding authority from other governmental entities throughout New York State.

EIC Short & Long Term Financing Activities

EIC has established a line of credit with First Niagara and a letter of intent with Bank of America to provide a source of capital for financing of clean energy projects in commercially owned buildings. See Note 3, "Other Matters" for further discussion. EIC has retained the services of the PFM Group, a leading independent municipal finance advisory firm, to help it continue to evaluate various long-term financing strategies.

Reserves

As part of its long term financing strategy, and in accordance with the agreement with First Niagara, EIC has established reserves totaling $644,855, including $150,000 in reserves dedicated to the First Niagara line sourced from original DOE grant funds and $144,855 from Orange County's allocation of better building grant funding. An additional $350,000 was sourced from DOE funds to establish a reserve to protect EIC creditors and municipalities from losses or defaults arising from financings made by EIC to property owners in municipalities with a population equal to or under 30,000. In addition, The New York Green Bank has awarded a $500,000 Letter of Credit to EIC, which will provide credit support to protect EIC's creditors and municipal members from losses or defaults arising from financings made by EIC to property owners in municipalities with a population greater than 30,000. In the event that EIC issues notes or bonds, The New York Green Bank's Letter of Credit can be used in connection with supporting a portion of the bond debt service funds or for any claims made on those reserves.

EIC will be providing additional funding to its reserves from lending activity, with the goal of improving EIC's credit rating and securing a resulting anticipated decrease in interest costs.

As EIC adds to its reserves as the result of on-going financing operations, existing reserve funds may be re-deployed back to the purposes outlined in the original DOE grant.

CONTACTING THE EIC'S FINANCIAL MANAGEMENT

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

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Energy Improvement Corporation

Statement of Net Position
December 31, 2014

ASSETS	
Cash and equivalents	$ 4,398
Restricted cash	644,855
Grants receivable	275,438
Prepaid expenses	3,873
Total Assets	928,564
LIABILITIES	
Loan payable	99,984
Accounts payable	92,732
Total Liabilities	192,716
NET POSITION	
Restricted	$ 735,848

See notes to financial statements

Energy Improvement Corporation

Statement of Activities
Year Ended December 31, 2014

OPERATING REVENUES	
Grant income	$ 617,434
Other program income	74,000
Miscellaneous	688
Total Operating Revenues	692,122
OPERATING EXPENSES	
Salaries	235,763
Payroll taxes	24,398
Legal fees	173,813
Administrative	99,033
Total Operating Expenses	533,007
Income from Operations	159,115
NET POSITION	
Beginning of Year	576,733
End of Year	$ 735,848

See notes to financial statements

Energy Improvement Corporation

Statement of Cash Flows
Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grant income	$	342,684
Payments to employees and vendors		(349,764)
Other program income		74,000
Net Cash from Operating Activities		66,920
Net Change in Cash and Equivalents		66,920
CASH AND EQUIVALENTS		
Beginning of Year		582,333
End of Year	$	649,253
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Income from operations	$	159,115
Adjustments to reconcile income from operations to net cash from operating activities		
Grants receivable		(275,438)
Prepaid expenses		(3,873)
Accounts payable		187,116
Cash Flows from Operating Activities	$	66,920

See notes to financial statements

Note 1 - Organization and Purpose

The Energy Improvement Corporation ("Corporation") was incorporated in July 2011 as defined in subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation Law and is a Type C corporation under Section 201 of the Not-for-Profit Corporation Law. The mission of the Corporation is to save money and energy by reducing greenhouse gas emissions in 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 residents, organizations, institutions and businesses in participating municipalities in New York while operating in a financially self-sufficient manner.

The Corporation is managed by a Board of Directors consisting of eleven seats. The Board will transition to a staggered Board consisting of nine seats representing EIC's municipal membership in 2015. EIC currently has 15 members: the Towns of Bedford, Cortlandt, Greenburgh, Lewisboro, Mount Kisco, North Salem, Ossining, Pound Ridge, Somers and Yorktown; Village of Croton-On-Hudson; Cities of New Rochelle, Peekskill and White Plains, and Orange County.

The Chief Executive Officer of the Town of Bedford, New York shall be a member of the Board of Directors for ten years expiring in 2021.

The income of the Corporation is exempt from federal, state and local income taxes. Revenues for 2014 included grants from the New York State Energy Research and Development Authority ("NYSERDA").

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

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 also 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 23, 2015.

Note 3 - Other Matters

The Corporation in conjunction with the Town of Bedford, New York ("Town"), the primary contractor, received Federal grants and grants from NYSERDA to develop and promote the mission of the Corporation through the Energize New York Program.

In 2014, the Town of Bedford expended $301,952 on Marketing, Information Technology & General Administration costs funded through the United States Department of Energy grant on behalf of the Corporation. Funds available from this grant were exhausted in the first half of 2014.

In the second quarter of 2014, EIC signed an agreement with NYSERDA to promote an expansion of EIC's ENY Commercial Program throughout New York State in 2014 and 2015. The amount of this award was $975,000 with the funds being provided to EIC on a reimbursement basis as EIC incurred expenses. As of December 31, 2014, EIC had incurred $617,434 in expenses in accordance with the terms of this grant. EIC had been reimbursed $341,996 as of December 31, 2014 and had $275,438 in receivables related to that grant from NYSERDA as of that date.

In the second quarter of 2014, (contract signed in the fourth quarter), EIC was also awarded $485,143 by NYSERDA to serve as the general contractor, overseeing a number of subcontractors in the implementation of the "Westchester Solarize Initiative". The goal of the Westchester Solar Initiative is to eliminate municipal barriers including zoning regulations that currently are a bar to the establishment of solar energy installations in both residential and small commercial properties. As the lead contractor, EIC has budgeted $20,000 in 2015 for reimbursement of administrative and legal expenses related to the program under the terms of this grant.

Bank of America Financing Arrangement

As part of the agreement with NYSERDA, the Corporation continues to develop energy improvement-related financing alternatives for New York State's commercial properties. In furtherance of that objective, in May 2014, EIC entered into a letter of intent with Bank of America to provide $75,000,000 of capital to EIC to finance energy improvements in commercially-owned buildings.

Financings of commercial projects by EIC can extend up to 20 years, and it is anticipated that completed financings will be consolidated and subsequently sold in bonds to Bank of America several times during the fiscal year, thus minimizing risk to the Corporation. As each financing is completed, EIC will realize revenues through application fees and a spread on the interest rate charged on financings which will help defray EIC's administrative costs.

Note 3 - Other Matters (Continued)

Warehouse Line of Credit with First Niagara Bank

In November of 2013, the Corporation entered into a Warehouse Line of Credit agreement with First Niagara Bank. This $3,000,000 line of credit, with an initial term of three years, will be used as initial capital to finance the commercial energy efficiency and renewable projects under the corporation's Energize NY Finance Program. The Corporation's intent is to repay outstanding draw-downs with long-term bond issuances to Bank of America and others..

The Corporation has an additional $300,000 Demand Line of Credit with First Niagara Bank which must be paid down to $120,000 for a period of 30 consecutive days once every twelve months. The Line of Credit is an unsecured Line of Credit with interest payable only monthly. As of December 31, 2014, $99,984 was payable to First Niagara Bank.

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

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

Restricted Cash and Dedicated Assets-Loan Loss Reserve Accounts

At December 31, 2014, the Corporation had restricted cash in the amount of $644,855. The cash is restricted in accordance with terms of financing agreements with First Niagara Bank and Bank of America. The Corporation has established Reserves totaling $644,855 sourced from original DOE grant funds. US Bank is the custodian of these funds under the terms of the Custody Agreement signed with First Niagara and the Corporation.

The $644,855 includes the $150,000 dedicated to First Niagara Bank, and $144,855 in DOE grant funds originally awarded to Orange County, N.Y. which have been transferred to the Corporation and deposited into a separate Orange County Reserve account.

Funds transferred to the Orange County Reserve account are restricted to protect Orange County and the Corporation debt holders from defaults or claims arising relating from commercial property financings made by the Corporation in Orange County.

$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 under 30,000.

Note 3 - Other Matters (Continued)

In addition, the New York Green Bank has issued a letter of credit to the Corporation providing $500,000 in Reserves for large municipalities 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 greater than 30,000.

When the $500,000 New York Green Bank Letter Of Credit awarded to EIC is added to the $644,855 in actual reserve funds on deposit with US Bank, the amount of reserves available to the Corporation, its member municipalities and its creditors totals $1,144,855.

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 DOE award.

Legal Expenses

As part of EIC's process to prepare and finalize a bond indenture, EIC has incurred $120,925 in related bond counsel fees as of December 31, 2014.

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O'CONNOR DAVIES

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

The Board of Directors of the Energy Improvement Corporation

We have examined the Energy Improvement Corporation's ("Corporation") compliance with Section 2925 of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended December 31, 2014. 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, 2014.

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

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 23, 2015

O'CONNOR DAVIES

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

Independent Auditor's Report

The Board of Directors of the
Energy Improvement Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Energy Improvement Corporation ("Corporation") as of and for the year ended December 31, 2014, 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 23, 2015.

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.

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Compliance and Other Matters

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

Purpose of this Report

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

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 23, 2015