



New York City Energy Efficiency Corporation

Financial Statements
(Together with Independent Auditors' Report)

Year Ended June 30, 2014

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

NEW YORK CITY ENERGY EFFICIENCY CORPORATION

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEAR ENDED JUNE 30, 2014

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-13

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
New York City Energy Efficiency Corporation

We have audited the accompanying financial statements of New York City Energy Efficiency Corporation ("NYCEEC"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NYCEEC as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 2A, NYCEEC has restated its financial statements as of June 30, 2013 from financial statements prepared using accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB") to financial statements prepared based on accounting principles generally accepted in the United States of America for not-for-profit entities as promulgated by the Financial Accounting Standards Board ("FASB"). Our opinion is not modified with respect to this matter.

As part of our audit of the June 30, 2014 financial statements, we also audited the adjustments described in Note 2A that were applied to restate the June 30, 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the June 30, 2013 financial statements of NYCEEC other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2013 financial statements as a whole. The financial statements of NYCEEC as of and for the year ended June 30, 2013 were audited by other auditors whose report dated September 25, 2013 expressed an unmodified opinion on those statements.



New York, NY
November 5, 2014

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

ASSETS

Current assets

Cash and cash equivalents (Notes 2H and 3)	\$ 366,668
Government grants receivable (Notes 2K and 5)	1,989,428
Contributions receivable (Notes 2J and 4)	390,000
Fees and interest receivable (Note 2L)	122,278
Prepaid expenses and other assets	<u>13,573</u>
Total current assets	<u>2,881,947</u>

Noncurrent assets

Restricted cash and cash equivalents	10,666,267
Restricted cash and cash equivalents - loan loss reserves (Notes 6 and 12)	6,690,000
Restricted cash and cash equivalents - loan commitments (Note 6)	2,365,277
Restricted cash - escrows held (Note 8)	624,572
Restricted deposit with NYCHDC (Note 7)	2,500,000
Loans receivable (Notes 2D and 6)	11,767,277
Property and equipment, net (Notes 2F and 11)	<u>223,145</u>
Total noncurrent assets	<u>34,836,538</u>

TOTAL ASSETS

\$ 37,718,485

LIABILITIES

Current liabilities

Accounts payable and accrued expenses (Notes 2G and 9)	\$ 649,518
Unearned revenue (Note 2K)	<u>576,292</u>
Total current liabilities	<u>1,225,810</u>

Noncurrent liabilities

Escrows due (Note 8)	624,572
Notes payable (Note 12)	300,000
Loan serviced on behalf of NYSERDA (Note 9)	<u>523,333</u>
Total noncurrent liabilities	<u>1,447,905</u>

TOTAL LIABILITIES

2,673,715

COMMITMENTS AND CONTINGENCIES (Note 13)

NET ASSETS (Note 2B)

Unrestricted	1,324,610
Temporarily restricted (Note 14)	<u>33,720,160</u>

TOTAL NET ASSETS

35,044,770

TOTAL LIABILITIES AND NET ASSETS

\$ 37,718,485

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	For the Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total 2014
SUPPORT AND REVENUE			
Contributions (Note 2J and 4)	\$ -	\$ 640,000	\$ 640,000
Government grants (Notes 2K and 5)	1,750,314	(886,308)	864,006
Fee income (Note 2L)	60,094	-	60,094
Interest from loans receivable (Note 2L)	740,017	-	740,017
Interest income from banks (Note 2M)	10,462	-	10,462
Net assets released from restrictions (Notes 2B and 4)	1,075,069	(1,075,069)	-
TOTAL SUPPORT AND REVENUE	3,635,956	(1,321,377)	2,314,579
EXPENSES			
Program services	1,933,478	-	1,933,478
Management and administration	598,178	-	598,178
Fundraising	70,734	-	70,734
TOTAL EXPENSES	2,602,390	-	2,602,390
CHANGE IN NET ASSETS	1,033,566	(1,321,377)	(287,811)
Net assets - beginning of year (as previously stated)	291,044	33,553,380	33,844,424
Restatement of opening net assets due to change in accounting standards (Notes 2A and 16)	-	1,488,157	1,488,157
Net assets - beginning of year (restated)	291,044	35,041,537	35,332,581
NET ASSETS - END OF YEAR	\$ 1,324,610	\$ 33,720,160	\$ 35,044,770

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Supporting Services		Total 2014
		Management and Administration	Fundraising	
Salaries and wages	\$ 1,144,044	\$ 241,020	\$ 55,205	\$ 1,440,269
Payroll taxes and employee benefits (Note 15)	240,155	50,594	11,588	302,337
Total personnel services	1,384,199	291,614	66,793	1,742,606
Professional and consulting fees	464,821	256,407	274	721,502
Occupancy (Note 13B)	32,916	13,515	1,526	47,957
Utilities	3,409	1,400	158	4,967
Insurance	16,539	6,791	767	24,097
Travel, meetings and conferences	8,940	3,671	414	13,025
Supplies and office expense	3,598	2,657	167	6,422
Telecom, internet and website	5,378	1,010	114	6,502
Postage and delivery	479	197	22	698
Minor furniture, equipment and leases	7,138	2,931	331	10,400
Payroll and benefits processing fees	-	14,174	-	14,174
Banking, finance and miscellaneous fees (Note 12)	3,017	2,561	28	5,606
Depreciation and amortization (Note 11)	3,044	1,250	140	4,434
Total expenses	<u>\$ 1,933,478</u>	<u>\$ 598,178</u>	<u>\$ 70,734</u>	<u>\$ 2,602,390</u>

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$	(287,811)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization		4,434
Amortization of deferred rent		<u>(706)</u>
Subtotal		(284,083)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Government grants receivable		(997,306)
Contributions receivable		(42,500)
Fees and interest receivable		32,855
Prepaid expenses and other assets		1,590
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses		250,973
Unearned revenue		<u>576,292</u>
Net Cash Used in Operating Activities		<u>(462,179)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Cash held in escrow		320,572
Interest capitalized		(615,624)
Loans disbursed		(6,849,286)
Loan payments received		878,264
Acquisitions of property and equipment		<u>(227,579)</u>
Net Cash Used in Investing Activities		<u>(6,493,653)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable		300,000
Funds from other capital providers		<u>23,333</u>
Net Cash Provided by Financing Activities		<u>323,333</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(6,632,499)

Cash and cash equivalents – Beginning of the year

27,345,283

CASH AND CASH EQUIVALENTS – END OF YEAR

\$ 20,712,784

RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:

Unrestricted cash and cash equivalents	\$	366,668
Restricted cash and cash equivalents		<u>20,346,116</u>

CASH AND CASH EQUIVALENTS—END OF YEAR

\$ 20,712,784

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	\$	<u>2,438</u>
--	----	--------------

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

New York City Energy Efficiency Corporation (“NYCEEC”) is a not-for-profit corporation organized in fiscal year 2011 as a component unit of The City of New York (“the City”) to further the greenhouse gas reduction plans of the City by facilitating energy efficiency investments by private building owners in the five boroughs through the provision of energy efficiency financing products. NYCEEC is a consultant to the City, and the subrecipient of two federal grants awarded to the City under the Energy Efficiency and Conservation Block Grant (“EECBG”) provisions of the American Recovery and Reinvestment Act of 2009 (“ARRA”).

On November 29, 2012, NYCEEC received notice from the Internal Revenue Service (“IRS”) that its tax exempt status under Section 501(c)(3) of the Internal Revenue Code was approved, and it is exempt from federal income taxes. NYCEEC is considered a public charity under Section 170(b)(1)(A)(vi). NYCEEC was incorporated under the laws of the State of New York (the “State”) and is exempt from State and local income and sales taxes.

NYCEEC continues to develop core in-house capabilities to make construction and permanent loans, to provide credit enhancement in the form of loan loss reserves, and to manage both energy efficiency retrofit technical and real estate finance risk. NYCEEC also partners with various lending organizations to finance energy efficiency and fuel conversion projects while encouraging best practices with respect to energy efficiency retrofit implementation and ongoing performance monitoring.

NYCEEC’s activities are primarily funded through two federal grants awarded to the City under the EECBG provisions of ARRA, one of which, the competitive portion of the EECBG, is administered by The New York State Energy Research and Development Authority (“NYSERDA”). NYCEEC’s activities are further funded through several philanthropic grants that NYCEEC was awarded in fiscal years 2012, 2013 and 2014.

NYCEEC is governed by a Board of Directors whose membership includes public officials and private individuals. In fiscal year 2014, NYCEEC’s Board of Directors voted to become self-perpetuating and NYCEEC is no longer considered a component unit of the City.

In accordance with its governing documents, the NYCEEC Chief Executive Officer and other NYCEEC officers have the responsibility to approve or disapprove financing transactions.

On May 31, 2012, NYCEEC established the NYCEEC Fuel Conversion Receivables LLC (the “LLC”) to participate in a \$10 million loan facility developed by NYCEEC, JPMorgan Chase & Co. and the Hess Corporation. NYCEEC is the sole member of the LLC, which is considered a disregarded entity of NYCEEC for financial reporting purposes. On July 3, 2012, NYCEEC committed \$2 million as a cash collateral loan loss reserve to JPMorgan Chase. On March 11, 2014, the loan facility was terminated and the \$2 million committed as a cash collateral loan loss reserve was returned to NYCEEC.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting*

The accompanying financial statements of NYCEEC have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applicable to not-for-profit organizations as defined by the Financial Accounting Standards Board (“FASB”).

NYCEEC was previously classified as an “enterprise fund” as defined by the Governmental Accounting Standards Board (“GASB”). In fiscal year 2014, NYCEEC transitioned its basis of presentation from GASB standards to FASB standards as the City no longer has financial accountability over NYCEEC and, due to changes in NYCEEC’s bylaws, the City no longer appoints a majority of NYCEEC’s Board of Directors. This change in accounting standards caused an increase in the beginning net assets of \$1,488,157 due to the recognition of pledges and commitments not recognized under GASB standards (see Note 16).

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. *Basis of Presentation*

NYCEEC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted – include expendable resources that are not subject to donor-imposed stipulations and, therefore, may be expended for any purpose in performing the primary objectives of NYCEEC.

Temporarily restricted – include resources subject to donor-imposed stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted – include resources subject to donor-imposed stipulations, requiring that the principal be maintained in perpetuity, but permit NYCEEC to expend part or all of the income and gains derived therefrom. There were no permanently restricted net assets at June 30, 2014.

C. *Functional Allocation of Expenses*

The costs of providing NYCEEC's program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated between program and supporting services based on an analysis of personnel time and space utilized for the related activities.

D. *Loans Receivable*

Loans receivable are funds utilized for financing energy efficiency, co-generation and fuel conversion projects. Loans receivable represent funds drawn by borrowers and interest capitalized on those funds. Non-capitalized interest on borrowed funds is recognized as interest receivable. The loan terms vary and have repayment periods of up to ten years.

E. *Allowable for Uncollectible Receivables*

NYCEEC provides an allowance for possible uncollectible receivables based on analysis of receivables deemed uncollectible. As of June 30, 2014, NYCEEC did not have any allowances for uncollectible receivables.

F. *Property and Equipment*

It is NYCEEC's policy to capitalize property and equipment with a cost over \$1,000 and a useful life longer than three years. Property and equipment are stated at their original costs or at their fair values at the dates of donation. Depreciation is provided using the straight-line method over the estimated useful lives. Expenditures for leasehold improvements are capitalized and amortized using the straight-line method over the lease term.

G. *Deferred Rent*

NYCEEC records rent expenses associated with its office lease on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements. In fiscal year 2014, NYCEEC signed a new lease starting June 1, 2014 (see Note 13B). Included in accounts payable and accrued expenses in the accompanying financial statements is a deferred rent liability of (\$706) which represents one month of deferred rent activity.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, NYCEEC considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

I. *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

J. *Contributions and Contributions Receivable*

Contribution revenue is recorded at fair value when the donor makes an unconditional promise to give. Amounts are recorded as temporarily or permanently restricted if they have donor stipulations that limit the use of the donated asset. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as contributions released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Grant funds are released from restriction to as eligible operating and capital expenses are incurred. When both restricted and unrestricted resources are available for use, it is NYCEEC's policy to use restricted resources first, and then unrestricted resources as they are needed.

Contributions received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

K. *Government Grants, Government Grants Receivable and Unearned Revenue*

Government grant revenue is recognized when earned. Government grant funds from the City used to capitalize NYCEEC's revolving loan fund and loan loss reserve fund are recorded as grant revenue upon receipt. Expense driven grants are recognized as revenue when qualifying expenses have been incurred and all other grant requirements have been met. Government grant funds received prior to qualifying expenses being incurred are recorded as unearned revenue.

Government grants receivable consists of eligible costs under government grants that were incurred prior to year-end for which payment has not been received.

L. *Program Revenue and Fees and Interest Receivable*

Program revenue includes income from interest and fees on loans and loan loss reserve transactions. Such income is recognized when earned. Fees are due and payable when earned.

When interest is capitalized during the construction period, it is reflected as loans receivable. Interest is due and payable monthly or quarterly based on the amortization schedule shared with the borrower.

M. *Investment Income*

Investment income reflects the earnings on the cash and cash equivalents of NYCEEC held with financial institutions.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2014, NYCEEC's bank balance was \$20,677,784 compared to its book balance of \$20,712,784. The difference between the bank balance and book balance of \$35,000 relates to reconciling items in the NYCEEC operating account. Of the bank balance, \$940,886 was covered by Federal Deposit Insurance Corporation ("FDIC") insurance and \$12,648,776 was fully collateralized under a pledge and assignment agreement with JP Morgan Chase (pledge agreement). The remaining \$7,088,122 is uncollateralized.

NOTE 4 – CONTRIBUTIONS

NYCEEC was awarded a total of \$640,000 in private foundation funding in fiscal year 2014. Since inception, NYCEEC has been awarded \$3.3 million in private foundation funding. Of this amount, \$390,000 was outstanding as of June 30, 2014, and is reflected in contributions receivable in the accompanying statement of financial position. This amount is expected to be received in fiscal year 2015.

NOTE 5 – GOVERNMENT GRANTS

NYCEEC was awarded an allocation from the City under the EECBG in an amount not to exceed \$37.5 million. NYCEEC has received \$35.3 million from the City since inception. Of this amount, a total of \$32.5 million was used to capitalize a revolving loan fund and loan loss reserve fund and was recorded as grant revenue in prior periods. The remainder of the funds received have been used for allowable operating expenses and are recorded as revenue as related costs are incurred. NYCEEC recorded \$1,989,429 as a grant receivable from the City at June 30, 2014, for expenditures incurred and not yet remitted. The City shall make further allocations to NYCEEC upon request and submission of the appropriate documentation by NYCEEC for allowable costs under the terms of the grant award.

In fiscal year 2014, NYCEEC received a budget modification for EECBG funding, resulting in a reduction of \$886,308 in funds previously received and recognized for the purposes of capitalizing the revolving loan fund and loan loss reserve fund. These funds were repurposed for operating expenses allowable under the grant. This has been treated as a reduction in restricted net assets and an increase in unearned revenue. As of June 30, 2014, net assets received under EECBG and restricted for purposes of the revolving loan fund and loan loss reserve fund were approximately \$31.7 million.

NOTE 6 – LOANS AND COLLATERAL COMMITMENTS

NYCEEC has received federal grants and a private grant that are to be utilized for financing energy efficiency, co-generation and fuel conversion projects. To date, NYCEEC has closed fifteen financing transactions, totaling \$25.1 million, consisting of five loan loss reserve transactions totaling \$11.2 million and ten loans totaling \$13.9 million. In addition, \$525,000 has been committed by NYSERDA for the financing of two loans co-financed and serviced by NYCEEC.

In fiscal year 2014, a \$2 million loan loss reserve agreement with JPMorgan was terminated. The outstanding loan loss reserve balance of \$9.2 million is reflected under restricted cash and cash equivalents – loan loss reserves and restricted deposit with NYCHDC (New York City Housing Development Corporation) in the accompanying statement of financial position.

Of the \$13.9 million in NYCEEC loan commitments, \$11.5 million has been drawn by borrowers to date, and of the \$525,000 NYSERDA loan commitments, \$525,000 has been drawn to date. In fiscal year 2014, interest of approximately \$615,000 was capitalized and was added to principal. NYCEEC collected approximately \$880,000 in principal repayments in fiscal year 2014. NYCEEC recorded approximately \$11.8 million in loans receivable at June 30, 2014.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – RESTRICTED DEPOSIT WITH NYCHDC

NYCEEC provided \$2.5 million to the New York City Housing Development Corporation (“NYCHDC”) for the establishment of the Energy Retrofit Loan Program (“ERLP”) loan loss reserve account. This reserve account is maintained by NYCHDC for the benefit of NYCHDC and NYCEEC. NYCHDC may invest the funds on deposit in the reserve account in one or more permitted investments selected by NYCHDC in its sole discretion. All proceeds and earnings of these investments benefit NYCEEC and are paid by NYCHDC to NYCEEC quarterly. If there are any losses on permitted investments, NYCHDC shall deposit the amount of such loss in the reserve account. During the year ended June 30, 2014, earnings on this reserve fund was \$53,770.

NOTE 8 – ESCROWS HELD AND ESCROWS DUE

A private entity, who is an affiliate of a NYCEEC borrower, contributed \$404,000 to capitalize certain loss reserves in respect of a financed project. The borrower makes monthly payments to fund reserves balances and quarterly principal and interest payments on the loan. These payments have increased the amounts held in reserve by approximately \$220,000 in fiscal year 2014 and interest has additionally accrued in the amount of \$650. Such reserves are held in escrow in respect of the financed project. To the extent that such funds are not used to repay any amounts owed and unpaid to NYCEEC under the loan agreement, a portion will be returned to the borrower on an annual basis and the balance at the term of the transaction, based on the loan agreement.

NOTE 9 – LOAN SERVICED ON BEHALF OF NYSERDA

Pursuant to a contractual arrangement between NYSERDA and NYCEEC, NYSERDA contributed \$525,000 to the origination of two project loans, of which \$525,000 has been disbursed to borrowers. Funds have been disbursed on a pro-rata basis with NYCEEC capital in accordance with the loan terms, and will be returned to NYSERDA on a pro-rata basis as loan repayments are made to NYCEEC. As such, NYCEEC is servicing this loan on behalf of NYSERDA. The repayment of funds to NYSERDA is made on a non-recourse basis and with no associated interest. In fiscal year 2014, NYCEEC made repayments to NYSERDA of \$833. As of June 30, 2014, \$524,166 is due to NYSERDA, of which \$833 is reflected in accounts payable and accrued expenses in the accompanying statement of financial position.

NOTE 10 – RISK MANAGEMENT

NYCEEC has standard commercial insurance coverage to mitigate typical operational risk. NYCEEC extends financing for energy efficiency retrofit projects and in this capacity NYCEEC is exposed to the risk of non-payment of fees, interest and return of principal. In cooperation with its Board of Directors and consultants, NYCEEC has instituted transaction-specific underwriting standards, due diligence and credit approval procedures, and monitoring procedures to mitigate these risks.

NOTE 11 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2014:

		Estimated <u>Useful Lives</u>
Leasehold improvements	\$ 196,677	5 years
Computers and equipment	<u>30,902</u>	3 years
Total cost	227,579	
Less: accumulated depreciation and amortization	<u>(4,434)</u>	
Net book value	<u>\$ 223,145</u>	

Depreciation and amortization expense amounted to \$4,434 for the year ended June 30, 2014.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – NOTE PAYABLE

On February 28, 2013, NYCEEC entered into agreement with Deutsche Bank under which a \$2 million line of credit would be made available to facilitate NYCEEC lending activities. Under the agreement, NYCEEC is required to provide seventy-five percent of the amounts drawn as a loan loss reserve for the benefit of Deutsche Bank. A \$1.5 million loan loss reserve to support the maximum borrowing capacity under the line is reflected in restricted cash and cash equivalents – loan loss reserves on the statement of financial position. As of June 30, 2014, NYCEEC has borrowed \$300,000 to issue one loan and has deposited \$225,000 in a bank account under the control of Deutsche Bank as a reserve. Interest is payable on the unpaid principal balance at the rate of 2.6% and the line of credit has a maturity date of November 28, 2020. Interest expense for the year ended June 30, 2014 amounted to \$2,438 and is included in banking, finance and miscellaneous fees in the accompanying statement of functional expenses.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. *Contingencies for Future Audits by Governmental Funding Sources*

Pursuant to NYCEEC's contractual relationships with its governmental funding sources, governmental agencies have the right to examine NYCEEC's books and records involving transactions relating to these contracts. The accompanying financial statements make no provision for possible disallowances.

B. *Lease Commitments*

In fiscal year 2014, NYCEEC entered into a lease for the use of facilities in Manhattan, which commenced on June 1, 2014 and extends through December 31, 2018. The lease is subject to escalations for increases in real estate taxes and other operating expenses. Prior to June 1, 2014, NYCEEC shared office space with another component unit of the City and reimbursed this entity for the cost of the space and other charges on a quarterly basis.

As of June 30, 2014, minimum future obligations under this lease were approximately as follows:

2015	\$ 80,000
2016	124,000
2017	124,000
2018	128,000
2019	<u>65,000</u>
	<u>\$ 521,000</u>

Rent expense for the year ended June 30, 2014 amounted to \$47,958 and is included in occupancy costs in the accompanying statement of functional expenses.

C. *Income Taxes*

NYCEEC had no uncertain tax positions as of June 30, 2014 in accordance with FASB Accounting Standards Codification Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. NYCEEC is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before June 30, 2011.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2014, temporarily restricted net assets were \$33.7 million. Of this amount \$1,052,088 has been received from private sources to fund future NYCEEC operations and \$32,667,072 is intended to fund the revolving loan fund and loan loss reserve fund. As of June 30, 2014, temporarily restricted net assets were restricted for the following:

Revolving loan and loan loss reserve fund	\$ 32,667,072
Time restrictions	911,530
Energy efficiency and resiliency analysis	<u>141,558</u>
	<u>\$ 33,720,160</u>

In fiscal year 2014, \$1,075,069 in allowable expenditures satisfied donor restrictions. This amount is recorded as net assets released from restriction in the accompanying statement of activities.

NOTE 15 – RETIREMENT PLAN

NYCEEC maintains a contributory, defined-contribution 401(k) plan covering all employees who meet specific eligibility requirements. The plan is an elective, deferred-salary arrangement. NYCEEC makes safe-harbor contributions matching employee contributions up to 3% of salary and half of employee contributions between 3% and 5%. Employee contributions and employer safe-harbor contributions are considered fully vested. NYCEEC may elect to make additional matching contributions on behalf of employees. Additional matching contributions are considered fully vested after six years of service. During the year ended June 30, 2014, NYCEEC contributions into the 401(k) plan on behalf of active employees totaled \$53,893 and are included in payroll taxes and employee benefits in the accompanying financial statements.

NOTE 16 – EFFECT OF CHANGE IN ACCOUNTING STANDARDS

As discussed in Note 2A, NYCEEC was previously classified as an “enterprise fund” as defined by the GASB. In fiscal year 2014, NYCEEC transitioned its basis of presentation from GASB standards to FASB standards as the City no longer has financial accountability over NYCEEC and, due to changes in NYCEEC’s bylaws, the City no longer appoints a majority of NYCEEC’s Board of Directors. This change in accounting standards caused an increase in the beginning net assets of \$1,488,157 due to the recognition of pledges and commitments not recognized under GASB standards.

The effect of the restatement on NYCEEC’s financial position as of June 30, 2013 is as follows:

	As Previously <u>Reported</u>	<u>Restated</u>
Contributions receivable	\$ <u>-</u>	\$ <u>347,500</u>
Total assets	\$ <u>36,188,332</u>	\$ <u>36,535,832</u>
Unearned revenue	\$ <u>1,140,657</u>	\$ <u>-</u>
Total liabilities	\$ <u>2,343,908</u>	\$ <u>1,203,251</u>
Total net assets	\$ <u>33,844,424</u>	\$ <u>35,332,581</u>

NOTE 17 – SUBSEQUENT EVENTS

NYCEEC has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through November 5, 2014, the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2014 through November 5, 2014 that would require adjustment to or disclosure in the accompanying financial statements.