



New York City Energy Efficiency Corporation

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2018 and 2017

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)**

YEARS ENDED JUNE 30, 2018 AND 2017

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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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
October 31, 2018

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2H and 3)	\$ 9,582,698	\$ 3,184,767
Government grants receivable (Notes 2K and 5)	497,866	368,359
Contributions receivable (Notes 2J and 4)	-	100,000
Fees and interest receivable (Note 2L)	411,707	472,897
Prepaid expenses and other assets	<u>53,373</u>	<u>49,490</u>
Total current assets	<u>10,545,644</u>	<u>4,175,513</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 3, 6 and 12)	5,617,778	7,075,930
Restricted cash - escrows held (Note 3 and 8)	871,170	1,082,327
Restricted deposit with NYCHDC (Note 7)	985,000	985,000
Loans receivable, net (Notes 2D, 2E and 6)	44,694,685	38,789,069
Property and equipment, net (Notes 2F and 11)	<u>71,899</u>	<u>129,759</u>
Total noncurrent assets	<u>52,240,532</u>	<u>48,062,085</u>
TOTAL ASSETS	<u>\$ 62,786,176</u>	<u>\$ 52,237,598</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses (Note 2G)	\$ 816,822	\$ 703,406
Notes payable (Note 12)	<u>-</u>	<u>40,000</u>
Total current liabilities	<u>816,822</u>	<u>743,406</u>
Noncurrent liabilities		
Escrows due (Note 8)	871,171	1,082,327
Notes payable (Note 12)	21,301,810	8,524,000
Loans serviced on behalf of third parties (Note 9)	<u>2,537,827</u>	<u>2,473,284</u>
Total noncurrent liabilities	<u>24,710,808</u>	<u>12,079,611</u>
TOTAL LIABILITIES	<u>25,527,630</u>	<u>12,823,017</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
NET ASSETS (Note 2B)		
Unrestricted	3,207,826	2,207,189
Temporarily restricted (Note 14)	<u>34,050,720</u>	<u>37,207,392</u>
TOTAL NET ASSETS	<u>37,258,546</u>	<u>39,414,581</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 62,786,176</u>	<u>\$ 52,237,598</u>

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

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	For the Year Ended June 30, 2018			For the Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total 2018	Unrestricted	Temporarily Restricted	Total 2017
SUPPORT AND REVENUE						
Contributions (Notes 2J and 4)	\$ -	\$ 600,000	\$ 600,000	\$ -	\$ 200,000	\$ 200,000
Government grants (Notes 2K and 5)	1,246,403	-	1,246,403	1,258,745	-	1,258,745
Fee income (Note 2L)	228,147	-	228,147	177,466	-	177,466
Interest from loans receivable (Note 2L)	3,642,286	-	3,642,286	2,750,751	-	2,750,751
Interest income from banks (Note 2M)	21,560	-	21,560	5,726	-	5,726
Net assets released from restrictions (Notes 2B and 14)	3,756,672	(3,756,672)	-	1,053,006	(1,053,006)	-
TOTAL SUPPORT AND REVENUE	8,895,068	(3,156,672)	5,738,396	5,245,694	(853,006)	4,392,688
EXPENSES						
Program services	6,957,046	-	6,957,046	4,814,896	-	4,814,896
Management and administration	822,282	-	822,282	671,734	-	671,734
Fundraising	115,103	-	115,103	71,442	-	71,442
TOTAL EXPENSES	7,894,431	-	7,894,431	5,558,072	-	5,558,072
CHANGE IN NET ASSETS	1,000,637	(3,156,672)	(2,156,035)	(312,378)	(853,006)	(1,165,384)
Net assets - beginning of year	2,207,189	37,207,392	39,414,581	2,519,567	38,060,398	40,579,965
NET ASSETS - END OF YEAR	\$ 3,207,826	\$ 34,050,720	\$ 37,258,546	\$ 2,207,189	\$ 37,207,392	\$ 39,414,581

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, 2018
(With Summarized Totals for the Year Ended June 30, 2017)

	For the Year Ended June 30, 2018				2017 Total
	Supporting Services			2018 Total	
	Program Services	Management and Administration	Fundraising		
Salaries and wages	\$ 1,376,731	\$ 367,302	\$ 55,971	\$ 1,800,004	\$ 1,805,012
Payroll taxes and employee benefits (Note 15)	346,679	92,491	14,094	453,264	383,281
Total personnel services	1,723,410	459,793	70,065	2,253,268	2,188,293
Professional and consulting fees	442,149	270,359	36,344	748,852	709,205
Occupancy (Note 13B)	80,841	24,137	2,781	107,759	114,700
Utilities	55,621	16,607	1,914	74,142	5,105
Insurance	24,942	7,447	858	33,247	32,637
Travel, meetings and conferences	12,529	3,741	431	16,701	19,567
Supplies and office expense	8,226	2,456	283	10,965	12,111
Telecom, internet and website	34,233	4,362	503	39,098	49,574
Postage and delivery	1,301	389	45	1,735	1,266
Minor furniture, equipment and leases	2,457	733	85	3,275	615
Payroll and benefits processing fees		11,388		11,388	11,190
Banking, finance and miscellaneous fees (Note 12)	653,706	5,352	5	659,063	385,121
Depreciation and amortization (Note 11)	51,975	15,518	1,789	69,282	64,214
Total expenses before provision for loan losses	3,091,390	822,282	115,103	4,028,775	3,593,598
Provision for loan losses (Notes 2E and 6)	3,865,656	-	-	3,865,656	1,964,474
Total expenses	\$ 6,957,046	\$ 822,282	\$ 115,103	\$ 7,894,431	\$ 5,558,072

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, 2017

	Program Services	Supporting Services		Total
		Management and Administration	Fundraising	
Salaries and wages	\$ 1,483,133	\$ 269,607	\$ 52,272	\$ 1,805,012
Payroll taxes and employee benefits (Note 15)	314,932	57,249	11,100	383,281
Total personnel services	1,798,065	326,856	63,372	2,188,293
Professional and consulting fees	429,134	277,842	2,229	709,205
Occupancy (Note 13B)	89,689	22,540	2,471	114,700
Utilities	3,992	1,003	110	5,105
Insurance	25,520	6,414	703	32,637
Travel, meetings and conferences	15,300	3,845	422	19,567
Supplies and office expense	9,470	2,380	261	12,111
Telecom, internet and website	45,060	4,068	446	49,574
Postage and delivery	990	249	27	1,266
Minor furniture, equipment and leases	481	121	13	615
Payroll and benefits processing fees	-	11,190	-	11,190
Banking, finance and miscellaneous fees (Note 12)	382,510	2,607	4	385,121
Depreciation and amortization (Note 11)	50,211	12,619	1,384	64,214
Total expenses before provision for loan losses	2,850,422	671,734	71,442	3,593,598
Provision for loan losses (Notes 2E and 6)	1,964,474	-	-	1,964,474
Total expenses	<u>\$ 4,814,896</u>	<u>\$ 671,734</u>	<u>\$ 71,442</u>	<u>\$ 5,558,072</u>

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

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,156,035)	\$ (1,165,384)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	69,282	64,214
Provision for loan losses	3,865,656	1,964,474
Amortization of deferred rent	<u>(15,000)</u>	<u>(8,060)</u>
Subtotal	1,763,903	855,244
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Government grants receivable	(129,507)	5,346,955
Contributions receivable	100,000	85,000
Fees and interest receivable	61,190	(160,548)
Prepaid expenses and other assets	(3,883)	(12,643)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>128,416</u>	<u>216,831</u>
Net Cash Provided by Operating Activities	<u>1,920,119</u>	<u>6,330,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash held in escrow	(211,156)	(45,175)
Interest capitalized	(1,995,319)	(1,323,261)
Loans disbursed	(12,580,204)	(12,593,399)
Loan payments received	4,804,251	4,332,819
Acquisitions of property and equipment	<u>(11,422)</u>	<u>(74,748)</u>
Net Cash Used in Investing Activities	<u>(9,993,850)</u>	<u>(9,703,764)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	14,521,810	3,414,000
Repayments of notes payable	(1,784,000)	-
Funds paid to other capital providers	(119,056)	(111,498)
Funds received from other capital providers	<u>183,599</u>	<u>2,168,992</u>
Net Cash Provided by Financing Activities	<u>12,802,353</u>	<u>5,471,494</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,728,622	2,098,569
Cash and cash equivalents – Beginning of the year	<u>11,343,024</u>	<u>9,244,455</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 16,071,646</u>	<u>\$ 11,343,024</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	\$ 9,582,698	\$ 3,184,767
Restricted cash and cash equivalents	<u>6,488,948</u>	<u>8,158,257</u>
CASH AND CASH EQUIVALENTS—END OF YEAR	<u>\$ 16,071,646</u>	<u>\$ 11,343,024</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 453,122</u>	<u>\$ 229,980</u>

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

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

New York City Energy Efficiency Corporation (“NYCEEC”) is a non-profit, specialty finance company that provides loans and innovative financing solutions to help building owners undertake energy efficiency and clean energy projects that reduce greenhouse gas emission and save money. NYCEEC finances energy efficiency, combined heat and power, fuel conversion, demand response and building-scale renewable energy and storage projects.

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 a component unit of The City of New York (the “City”).

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 makes construction and permanent loans and provides credit enhancement in the form of loan loss reserves exclusively for energy efficiency and clean energy projects in buildings. NYCEEC also partners with various lending organizations to finance such projects while encouraging best practices with respect to energy efficiency retrofit implementation and ongoing performance monitoring.

NYCEEC’s project loans are primarily funded by Federal funds as well as funds received from the City, private banks and philanthropic foundations. NYCEEC’s operations are primarily funded through earnings on its project loans and funds received through the contract with the City as well as several philanthropic grants that NYCEEC has been awarded since inception.

In accordance with its governing documents, NYCEEC officers have the responsibility to approve or disapprove certain financing transactions while other transactions must be approved by certain members of the Board of Directors.

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 as applicable to not-for-profit organizations as defined by the Financial Accounting Standards Board (“FASB”).

B. *Basis of Presentation*

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

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017.

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 statements 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 clean energy and energy efficiency projects. Loans receivable represent funds drawn by borrowers and any interest capitalized on those funds. Non-capitalized interest on borrowed funds is recognized as interest receivable. The loan terms vary and generally have repayment periods of up to 12 years.

Loans are considered past due when payment of scheduled principal or interest is not received within 30 days from the payment due date. NYCEEC's policy places a loan on non-accrual status when payments of principal or interest are 120 days past due or more unless the loan is in the process of collection and management reasonably expects full collection. Management may place a loan on non-accrual whether the loan is past due or when it is evident that full payment of the loan is not expected. Interest on non-accrual loans will not be recognized on an accrual basis from the point they are placed on non-accrual. A non-accrual loan will be returned to accrual status when all past due payments are brought current and management believes repayment of contractually owed principal and interest is reasonably assured.

E. *Provision for Uncollectible Amounts*

NYCEEC establishes a provision for possible uncollectible amounts based on an analysis of receivables deemed uncollectible. NYCEEC's policy is based on its internal evaluation of the individual loans and their associated risk. These amounts are recorded in the accompanying financial statements under loans receivable or fees and interest receivable, as applicable (see Note 6).

As of June 30, 2018 and 2017 the accompanying financial statements included provisions on allowance for uncollectible loans of \$6,231,065 and \$1,964,474, respectively.

F. *Property and Equipment*

It is NYCEEC's policy to capitalize property and equipment with a cost over \$1,000 and a useful life of at least 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. Included in accounts payable and accrued expenses in the accompanying financial statements is a deferred rent liability of \$4,880 and \$19,880 as of June 30, 2018 and 2017, respectively.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 statements 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 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 to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved, unless deemed to be de minimis.

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 is recorded as grant revenue when committed and funding is certain. 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 the fiscal year-end and funds committed for the loan fund and loan loss reserve fund 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, 2018 AND 2017

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2018, NYCEEC's bank balance was \$16,166,503 compared to its book balance of \$16,071,646. The difference between the bank balance and book balance of \$94,857 relates to reconciling items in the NYCEEC operating account. Of the bank balance, \$250,000 was covered by Federal Deposit Insurance Corporation ("FDIC") insurance for each of the two banks and \$14,925,503 was fully collateralized under a pledge and assignment agreement with JP Morgan Chase. The remaining \$741,000 is uncollateralized.

NOTE 4 – CONTRIBUTIONS

NYCEEC was awarded a total of \$600,000 and \$200,000 in private foundation funding during the years ended June 30, 2018 and 2017, respectively. Since inception, NYCEEC has been awarded \$6.8 million in private foundation funding. Of this amount, \$100,000 was outstanding as of June 30, 2017 and is reflected in contributions receivable in the accompanying statements of financial position. The funding was fully received in 2018.

NOTE 5 – GOVERNMENT GRANTS AND CONTRACTS

In 2011, NYCEEC was awarded an allocation from the City under the Energy Efficiency and Conservation Block Grant Program ("EECBG") in the amount of \$37.5 million, which was received in full. NYCEEC has received \$37.5 million from the City since inception. Of this amount, a total of \$32.8 million was used to capitalize a revolving loan fund and loan loss reserve fund and has been recorded as grant revenue in prior periods.

The City committed to funding NYCEEC an additional \$8.2 million over three years, beginning June 2015 for additional clean energy financing and related services. Of this \$8.2 million, \$5 million was used to capitalize a revolving loan fund and has been recorded as revenue in the statements of activities. NYCEEC recorded a receivable balance from the City at June 30, 2017 of \$272,421 for expenditures incurred. As of June 30, 2018, \$248,126 was including in government grants receivable on the accompanying financial statements for expenditures incurred. The City shall make further allocations to NYCEEC upon request and submission.

As of June 30, 2018 and 2017, net assets received under the contract with the City and restricted for purposes of the revolving loan fund and loan loss reserve fund were approximately \$33.9 million and \$36.8 million, respectively (see Note 14). In the year ending June 30, 2018 and 2017, approximately \$3.3 million and \$828,000, respectively, of loan funding from the City was released from restrictions to cover the provision for loan losses on anticipated uncollectible loans receivable funded by the City. In addition, approximately \$500,000 was received by FJC, a Foundation of Philanthropic Funds, and added to the temporarily restricted net assets.

NOTE 6 – LOANS AND COLLATERAL COMMITMENTS

A. Loans and Collateral Commitments

NYCEEC has received federal grants and a private grant that are to be utilized for financing clean energy and energy efficiency. NYCEEC has also secured participant lenders and other borrowing facilities to fund its project loan portfolio. Through June 30, 2018, NYCEEC has closed seventy-six financing transactions, totaling approximately \$76.7 million. These seventy-six transactions have consisted of six loan loss reserve transactions totaling \$12.2 million and seventy loans totaling \$64.6 million since inception.

Of the \$64.6 million in NYCEEC loan commitments, \$57.9 million has been drawn by borrowers through June 30, 2018 and approximately \$6.7 million remains to be drawn. In fiscal year 2018, interest of \$2,610,755 was capitalized and added to principal. NYCEEC has collected approximately \$4.3 million in principal repayments in fiscal year 2018. NYCEEC recorded approximately \$50.9 million and \$40.7 million in loans receivable at June 30, 2018 and 2017, respectively.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 – LOANS AND COLLATERAL COMMITMENTS (Continued)

	<u>2018</u>	<u>2017</u>
Loans receivable, beginning	\$ 40,753,543	\$ 31,169,702
Loan disbursements	12,365,703	12,593,399
Interest capitalization	2,610,755	1,323,261
Loan repayments	<u>(4,804,251)</u>	<u>(4,332,819)</u>
Loans receivable, ending	50,925,750	40,753,543
Less allowance	<u>(6,231,065)</u>	<u>(1,964,474)</u>
Loans receivable, net	<u>\$ 44,694,685</u>	<u>\$ 38,789,069</u>

The following is a summary of the scheduled principal repayments to be received on all of NYCEEC's loans (before the provision for uncollectible amounts):

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 5,117,230	\$ 5,005,867
Due within one to five years	3,711,274	10,196,153
Due after five years	<u>42,097,246</u>	<u>25,551,523</u>
	<u>\$ 50,925,750</u>	<u>\$ 40,753,543</u>

B. Concentrations

As of June 30, 2018 and 2017, borrowers with outstanding balances in excess of 10% of the gross loans receivable accounted for 61% and 59% of the portfolio, respectively. As of June 30, 2018, the largest concentrations of loans receivables are with three borrowers across five loans and amount to approximately \$16.6 million, \$7.5 million and \$4.7 million representing approximately 34%, 15% and 10% of NYCEEC's loan portfolio, net of participations. As of June 30, 2017, the largest concentrations of loans receivables were with three borrowers across five loans and amounted to approximately \$9.7 million, \$8.1 million and \$4.0 million representing approximately 25%, 21% and 10%, respectively, of NYCEEC's loan portfolio, net of participations.

C. Ratings and Provisions

NYCEEC uses an internal rating system to determine borrower repayment risk and the appropriate provision. The definitions of the rating levels are summarized below, in addition to amounts provisioned based on analysis of specific receivables deemed uncollectible. Provisions calculated do not include amounts serviced on behalf of third parties.

1. Pass provisioned at 2% of outstanding principal balance: The borrower and the loan are both performing fully to projections and project milestones, or better, with no sign of deterioration in any of the major performance criteria.
2. Watch/Attention provisioned at 10% of outstanding principal balance: Deterioration in one or more major financial performance criteria is a trend requiring increased scrutiny and possible intervention with the borrower.
3. Doubtful/Substandard provisioned at 20% of outstanding principal balance: Borrower or loan shows significant deterioration, requiring restructuring and intervention. Negative trends cannot be easily reversed, and payment on the original terms is extremely doubtful.

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NOTE 6 – LOANS AND COLLATERAL COMMITMENTS (Continued)

An analysis of the allowance for uncollectible amounts as of June 30, 2017 and 2018 by rating category is summarized as follows:

Classification	Loans Receivable	Loan-Loss Reserves	Provision	June 30, 2017, Net
Specific	\$ 5,828,701	\$ -	\$ (828,141)	\$ 5,000,560
1	31,339,842	985,000	(616,333)	31,708,509
2	-	-	-	-
3	2,600,000	-	(520,000)	2,080,000
	<u>\$ 39,768,543</u>	<u>\$ 985,000</u>	<u>\$ (1,964,474)</u>	<u>\$ 38,789,069</u>

Classification	Loans Receivable	Loan-Loss Reserves	Provision	June 30, 2018, Net
Specific	\$ 6,486,832	\$ -	\$ (4,905,344)	\$ 1,581,488
1	40,853,918	985,000	(805,721)	41,033,197
2	-	-	-	-
3	2,600,000	-	(520,000)	2,080,000
	<u>\$ 49,940,750</u>	<u>\$ 985,000</u>	<u>\$ (6,231,065)</u>	<u>\$ 44,694,685</u>

NOTE 7 – RESTRICTED DEPOSIT WITH NYCHDC

NYCEEC provided \$2.5 million to NYCHDC for the establishment of the Program for Energy Reduction Loans (“PERL”) loan loss reserve account. In fiscal year 2016, NYCHDC repaid NYCEEC \$1.5 million to reduce the amount held to \$985,000. There was no additional repayment in fiscal year 2018, and as of June 30, 2018, the amounts held in reserve were \$985,000. 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 years ended June 30, 2018 and 2017, earnings on this reserve fund were \$11,004 and \$6,393, respectively, and such amounts are included in interest from loans receivable in the accompanying financial statements.

NOTE 8 – ESCROWS HELD AND ESCROWS DUE

Two NYCEEC borrowers have contributed funds to capitalize certain loss reserves in respect of financed projects. The first borrower makes monthly payments to fund reserves balances and quarterly principal and interest payments on the loan. During the years ended June 30, 2018 and 2017, these payments and interest accrued have decreased the amounts held in reserve by approximately \$200,000 and \$45,000, respectively. 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. The second borrower has funded certain reserves during construction of approximately \$99,000 as per schedules established in the associated loan agreements. Such reserves are held in escrow in respect of the financed projects.

NOTE 9 – OTHER NON-CURRENT LIABILITIES - LOANS SERVICED ON BEHALF OF THIRD PARTIES

Pursuant to a contractual arrangement between NYSERDA and NYCEEC, NYSERDA contributed \$721,332 to the origination of seven project loans which 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 concurrently 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.

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NOTE 9 – OTHER NON-CURRENT LIABILITIES – LOANS SERVICED ON BEHALF OF THIRD PARTIES
(Continued)

During the years ended June 30, 2018 and 2017, NYCEEC made repayments to NYSERDA of \$119,056 and \$111,498, respectively. As of June 30, 2018 and 2017, \$210,448 and \$329,504, respectively, is due to NYSERDA, of which is reflected as loans serviced on behalf of NYSERDA in the accompanying statements of financial position.

Pursuant to a contractual arrangement with a third-party participant to co-fund one project loan, \$2,143,779 has been contributed by the third-party capital in accordance with the loan terms during the year ended June 30, 2018. Inclusive of NYSERDA and this private investor, the total loan participations serviced on behalf of third parties as of June 30, 2018 and 2017 were \$2,537,827 and \$2,473,284, respectively.

NOTE 10 – RISK MANAGEMENT

NYCEEC has standard commercial insurance coverage to mitigate typical operational risk.

NYCEEC extends financing for both clean energy and 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 196,677	\$ 196,677	5 Years
Furniture and fixtures	8,408	-	5 Years
Software	35,493	35,493	3 Years
Computers and equipment	<u>75,901</u>	<u>72,887</u>	3 Years
Total cost	316,479	305,057	
Less: accumulated depreciation and amortization	<u>(244,580)</u>	<u>(175,298)</u>	
Net book value	<u>\$ 71,899</u>	<u>\$ 129,759</u>	

Depreciation and amortization expense amounted to \$69,282 and \$64,214, respectively, for the years ended June 30, 2018 and 2017.

NOTE 12 – NOTES PAYABLE

On December 31, 2014, NYCEEC was awarded a working capital recoverable grant of \$120,000 from the Deutsche Bank Americas Foundation over three years. This award is treated as a zero-interest loan and must be repaid over three years following the grant period. As of June 30, 2018 and 2017, NYCEEC had received \$40,000 and \$120,000, respectively, under the award. \$40,000 is included in notes payable - noncurrent.

On December 5, 2017, NYCEEC entered into an agreement with FJC, a New York not-for-profit corporation, for a term loan facility to support an energy improvement project with a maximum borrowing capacity of \$2.22 million and which matures June 7, 2020. Interest accrues on amounts borrowed under the note at prime + 3% per annum and is paid quarterly. As of June 30, 2018, NYCEEC had drawn \$1.2 million. This amount is included in notes payable – noncurrent.

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NOTE 12 – NOTES PAYABLE (Continued)

On April 15, 2016, NYCEEC entered into an agreement with Bank of America (“BOA”) for a term loan facility with a maximum borrowing capacity of \$10 million, which may be drawn through October 15, 2017 and which matures April 15, 2024 with interim payments due April 15, 2021, 2022 and 2023. Interest accrues on amounts borrowed under the note at 3% per annum and is paid quarterly. As of June 30, 2018 and 2017, NYCEEC had drawn \$10 million and \$4.7 million, respectively, under the note. This amount is included in notes payable – noncurrent.

On July 1, 2016, NYCEEC entered into agreement with the MacArthur Foundation for a term-loan program related investment in the amount of \$5 million, which may be drawn through June 30, 2018 and which matures July 1, 2031 with interim payments due July 1, 2028, 2029 and 2030. Interest accrues on amounts borrowed under the note at 1% per annum and is paid quarterly. As of June 30, 2018 and 2017, NYCEEC had drawn \$5 million and \$2 million, respectively, under the note. This amount is included in notes payable – noncurrent.

On July 26, 2016, NYCEEC entered into agreement with Deutsche Bank for a revolving loan facility in the amount of \$5 million, which may be drawn through July 26, 2017 and which matures July 26, 2019. Interest accrues on amounts borrowed under the note at LIBOR + 2.25% per annum and is paid quarterly. The facility is subject to an unused facility fee, which accrues on amounts committed but unborrowed at two tenths of one percent (0.20%) and is paid quarterly. As of June 30, 2017, NYCEEC had not made any draws under the note. As of June 30, 2018, NYCEEC had drawn \$5 million under the note. This amount is included in notes payable – noncurrent.

As of June 30, 2018 and 2017, NYCEEC had total notes payable of \$21.3 million and \$8.5 million, respectively. Interest expense for the years ended June 30, 2018 and 2017 amounted to \$475,637 and \$244,531, respectively, and is included in banking, finance and miscellaneous fees in the accompanying statements 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*

On May 29, 2014, NYCEEC entered into a lease for the use of facilities in Manhattan which extends through December 31, 2018. The lease is subject to escalations for increases in real estate taxes and other operating expenses.

As of June 30, 2018, minimum future obligations under this lease were approximately as follows:

Fiscal year 2019	\$ 41,000
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Rent expense for the years ended June 30, 2018 and 2017 amounted to \$107,759 and \$114,700, respectively, and is included in occupancy costs in the accompanying statements of functional expenses.

C. *Income Taxes*

NYCEEC believes it had no uncertain tax positions as of June 30, 2018 and 2017 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.

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NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

For the years ended June 30, 2018 and 2017, temporarily restricted net assets were \$34,050,720 and \$37,207,392, respectively. Of this amount, \$81,640 and \$368,460, respectively, has been received from private sources to fund future NYCEEC operations and \$33,969,080 and \$36,838,932, respectively, is intended to fund the revolving loan fund and loan loss reserve fund.

As of June 30, 2018 and 2017, temporarily restricted net assets were restricted for the following:

	<u>2018</u>	<u>2017</u>
Revolving loan and loan loss reserve fund	\$ 33,969,080	\$ 36,838,932
Time restrictions	<u>81,640</u>	<u>368,460</u>
Net book value	<u>\$ 34,050,720</u>	<u>\$ 37,207,392</u>

During the years ended June 30, 2018 and 2017, \$3,756,671 and \$1,053,006, respectively, in allowable expenditures satisfied donor restrictions. During the year ended June 30, 2018, these amounts included approximately \$3.4 million in funding released to cover the provision for loan losses on anticipated uncollectible loans receivable. Such amounts are recorded as net assets released from restriction in the accompanying statements 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 years ended June 30, 2018 and 2017, NYCEEC contributions into the 401(k) plan on behalf of active employees totaled \$74,273 and \$68,152, respectively, and are included in payroll taxes and employee benefits in the accompanying financial statements.

NOTE 16 – SUBSEQUENT EVENTS

NYCEEC has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through October 31, 2017, the date the financial statements were available to be issued.

On September 14, 2018, NYCEEC entered into a sublease for the use of facilities in Manhattan, which extends through September 29, 2023. The lease is subject to escalations for increased in real estate and other operating expenses.