

**NY GREEN BANK**  
**(A Division of the New York State Energy Research and Development Authority)**

**FINANCIAL STATEMENTS**

**March 31, 2018**

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## RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation, integrity and objectivity of the financial statements of NY Green Bank, a division of the New York State Energy Research and Development Authority (the Authority), as well as all other information contained in the Authority's Annual Report. The financial statements of NY Green Bank for the fiscal year ending March 31, 2018 were prepared in conformity with U.S. generally accepted accounting principles. The Board of the Authority (the Board) adopted these financial statements at a meeting on June 26, 2018.

The Authority maintains a system of internal controls, the objectives of which are to provide reasonable assurance as to the proper authorization and recording of transactions, the safeguarding of Authority assets, the compliance with applicable laws and regulations, and the reliability of financial records for preparing financial statements. The internal control structure is subject to periodic review by management, internal audit staff and the independent auditors. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

NY Green Bank's financial statements have been audited by KPMG LLP, independent auditors appointed by the Members of the Board. Management has made available to the independent auditors all the financial records and related data of NY Green Bank, as well as provided access to all the minutes of the meetings of the Board and its standing committees. The independent auditors periodically meet directly with the Audit and Finance Committee of the Board, which is comprised of Members who are not employees of the Authority.

The independent audit included obtaining an understanding of the internal control structure, tests of accounting records, and other procedures which the independent auditors considered necessary in order to express opinions as to the fairness of the presentation of the financial statements. No material weaknesses in internal control or any condition of non-compliance with applicable laws, regulations, or policy were noted by the independent auditors through the execution of their audit procedures. The unmodified independent auditors' report attests that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.



Alfred W. Griffin  
President of  
NY Green Bank



Jeffrey J. Pitkin  
Treasurer and  
Chief Financial Officer  
NYSERDA



KPMG LLP  
515 Broadway  
Albany, NY 12207-2974

## Independent Auditors' Report

Members of the Authority  
New York State Energy Research and Development Authority:

### Report on the Financial Statements

We have audited the accompanying financial statements of NY Green Bank, an enterprise fund of the New York State Energy Research and Development Authority (the Fund), which comprise the statement of net position as of March 31, 2018, and the related statements of revenue, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to the 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 U.S. generally accepted accounting principles; 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 auditors consider 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 the Fund as of March 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in Note 2(a) to the financial statements, the financial statements present only the NY Green Bank Fund and do not purport to and do not present fairly the financial position of the New York State Energy Research and Development Authority as of March 31, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### *Report on Comparative Information*

We have previously audited the 2017 financial statements of NY Green Bank, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the Fund's basic financial statements. The Responsibility for Financial Reporting section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

**KPMG LLP**

Albany, New York  
June 26, 2018

NY Green Bank  
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Management's Discussion and Analysis  
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The following Management's Discussion and Analysis (MD&A) of NY Green Bank's financial performance provides an overview of NY Green Bank's financial activities for the fiscal year ended March 31, 2018. The information contained in the MD&A should be considered in conjunction with the information in the accompanying financial statements and related notes. Following this MD&A are the basic financial statements of NY Green Bank with the notes thereto that are essential to a full understanding of the data contained in the financial statements. NY Green Bank's basic financial statements have the following components: (1) proprietary fund financial statements and (2) notes to the basic financial statements.

Proprietary fund financial statements are designed to provide readers with a broad overview of NY Green Bank's finances in a manner similar to a private-sector business. The *Statement of Net Position* presents information on NY Green Bank's assets and deferred outflows of resources, and liabilities, and the difference between these is reported as net position. The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how NY Green Bank's net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in the Statement for some items that will result in cash flows in future fiscal periods. The *Statement of Cash Flows* shows how changes in balance sheet and income accounts affect cash balances at year end. The notes to the basic financial statements provide additional information that is essential for a full understanding of the information provided in the proprietary fund financial statements.

NY Green Bank is a division of the New York State Energy Research and Development Authority (NYSERDA). The financial statements present the financial results of NY Green Bank and not the overall financial results of NYSERDA. A complete set of NYSERDA's audited financial statements is available upon request.

## CONDENSED FINANCIAL INFORMATION

The following condensed financial information is presented from NY Green Bank's financial statements.

| Summary of Net Position              | <i>(Amounts in thousands)</i> |                           |                               |
|--------------------------------------|-------------------------------|---------------------------|-------------------------------|
|                                      | <b>March 31,<br/>2018</b>     | <b>March 31,<br/>2017</b> | <b>% Change<br/>2018-2017</b> |
| Cash and investments                 | \$189,620                     | 105,677                   | 79.4%                         |
| Loans and financing receivables, net | 295,342                       | 258,541                   | 14.2%                         |
| Other assets                         | 2,083                         | 1,510                     | 37.9%                         |
| Total assets                         | <u>487,045</u>                | <u>365,728</u>            | <u>33.2%</u>                  |
| Deferred outflows of resources       | 609                           | 1,435                     | -57.6%                        |
| Net pension liability                | 925                           | 1,583                     | -41.6%                        |
| Other liabilities                    | 578                           | 344                       | 68.0%                         |
| Total liabilities                    | <u>1,503</u>                  | <u>1,927</u>              | <u>-22.0%</u>                 |
| Net position - restricted            | <u>\$486,151</u>              | <u>365,236</u>            | <u>33.1%</u>                  |

For the year ended March 31, 2018, NY Green Bank continued its focus on execution and asset management across all aspects of its sustainable infrastructure investment business, consistent with comparable established entities with analogous investment activities. This was reflected in additional transaction execution activity in the period, increasing NY Green Bank's Loans and Financing Receivables (hereinafter referred to as "Portfolio Investment(s)"), ongoing business development to

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maintain a robust pipeline of potential Portfolio Investments, as well as focus on implementing operational platforms, policies and practices consistent with industry best practice.

NY Green Bank has received over \$2.6 billion in Portfolio Investment proposals from inception through March 31, 2018. Its active pipeline of potential Portfolio Investments proceeding towards closing was \$704.2 million as of March 31, 2018, continuing to be diversified across technology, location, and end-user segments. During the past fiscal year, NY Green Bank closed six new Portfolio Investment transactions totaling \$111.4 million, facilitating clean energy development in New York State with an aggregate estimated total project cost in the range of \$1.4 billion to \$1.6 billion. Through March 31, 2018, NY Green Bank's overall sustainable infrastructure investments since inception totaled \$457.5 million. At the same date, NY Green Bank's current portfolio (representing the aggregate dollar value of its sustainable infrastructure investments and comprising deployed as well as committed amounts on that date) was \$374.3 million. This is net of all permanent repayments of principal received by NY Green Bank in accordance with the terms of its Portfolio Investments that occurred within the year in the amount of \$61.8 million (i.e., does not include paydowns against revolving facilities that remain available for redraw, which aggregated \$81.4 million in the fiscal year), and includes capitalized items (e.g., interest and/or fees) to the extent capitalized within the period (i.e., not amounts on account of interest and/or fees that may be capitalized in future periods). Principal repaid, together with net income generated by NY Green Bank becomes immediately available for recycling into further investments, amplifying the positive effects of each dollar of NY Green Bank capital on clean energy markets within the State for the benefit of all New Yorkers.

The 79.4% increase in Cash and Investments reflects that NY Green Bank's portfolio is more established with an increasing volume of investments starting to pay down, and such returned capital being available for recycling into new Portfolio Investment transactions, in addition to funds received on account of further capitalization. NY Green Bank's cash and invested capital balances reflect \$478.7 million in funded capitalization received to date. NY Green Bank receives incremental capital contributions through NYSERDA as capital is committed and an additional \$521.8 million in capitalization is expected to be provided based on the New York State Public Service Commission's (Commission) approval of \$1.0 billion in funded capitalization. In turn, NYSERDA funds these contributions either from a transfer of existing cash and investment balances (of certain Commission authorized programs), or from the Clean Energy Fund (CEF) ratepayer collections held by the electric utilities under the "Bill-As-You-Go" (BAYG) approach, consistent with the Order of the Commission establishing the CEF. NY Green Bank's forecasted liquidity needs are fully addressed through these funded capital contributions, or through the use of a credit facility, if and when required.

As part of U.S. generally accepted accounting standards (GAAP), the Governmental Accounting Standards Board (GASB) requires capital contributions made to NY Green Bank from NYSERDA's available cash and investment balances to be treated as transfers, while those derived directly from the BAYG approach be accounted for as non-operating revenues to NY Green Bank. As a result, additions to NY Green Bank's capital during the fiscal year equal the sum of "Capital contributions" under Non-operating revenues and "Transfers in" on NY Green Bank's Statement of Revenues, Expenses and Changes in Fund Net Position.

The variance in Deferred Outflows of Resources results from a decrease in the actuarially-determined net deferred outflows (i.e., deferred pension expense resulting from actuarial smoothing practices) determined by the New York State and Local Retirement System, of which NY Green Bank, as a proprietary fund of NYSERDA, is required to record its proportionate share relative to all participating employers across the State.

Similar to Deferred Outflows of Resources, the variance in Net Pension Liability also reflects a decrease in the actuarially-determined liability. NY Green Bank, as a proprietary fund of NYSERDA, is required to

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record its proportionate share of the net pension liability (i.e., unfunded liability) of all employers participating in the New York State and Local Retirement System. Other Liabilities increased 68.0% during the fiscal year, primarily from an increase in accrued operating liabilities.

It is important to note that, consistent with its business model, not all funds that NY Green Bank commits to sustainable infrastructure and clean energy development in the State are intended to be deployed and disbursed immediately, or in some cases, at all, pursuant to executed contractual arrangements. Many NY Green Bank Portfolio Investments relate to distributed generation or energy efficiency finance, which are most commonly focused on funding portfolios of projects. Once a Portfolio Investment of these types closes, developers begin implementing projects and drawing down on capital over time. These financings are "delayed draw" by design in that funds are not deployed until project sponsors meet certain development milestones over a time period necessary to originate, develop and construct a large number of smaller, distributed clean energy projects. NY Green Bank also enters into transactions that are not expected to be funded, such as those involving credit enhancements that comprise a contingent obligation for NY Green Bank, and where NY Green Bank capital is only drawn if a contingency is triggered.

Total Assets and Net Position increased by \$121.3 million and \$120.9 million, respectively. NY Green Bank's Net Position as of March 31, 2018 was \$486.2 million, reflecting the total capitalization of \$478.7 million funded through the end of the period, less cumulative operating expenses but adding back cumulative operating revenues and investment income.

| <b>Summary of Changes in Net Position</b>                | <i>(Amounts in thousands)</i> |                           |                               |
|--|-------------------------------|---------------------------|-------------------------------|
|  | <b>March 31,<br/>2018</b>     | <b>March 31,<br/>2017</b> | <b>% Change<br/>2018-2017</b> |
| Operating revenues:                                      |                               |                           |                               |
| Fees   | \$2,484                       | 3,399                     | -26.9%                        |
| Loans and financing receivables interest                 | 16,703                        | 5,373                     | 210.9%                        |
| Provisions for losses on loans and financing receivables | (844)                         | -                         | 100.0%                        |
| Total operating revenues:                                | 18,343                        | 8,772                     | 109.1%                        |
| Operating expenses:                                      |                               |                           |                               |
| Salaries and benefits                                    | 5,716                         | 4,371                     | 30.8%                         |
| Investment related expenses                              | 435                           | 520                       | -16.3%                        |
| Program operating costs                                  | 1,152                         | 914                       | 26.0%                         |
| General and administrative expenses                      | 920                           | 979                       | -6.0%                         |
| Depreciation   | 154                           | 124                       | 24.2%                         |
| NY State assessments                                     | 86                            | 124                       | -30.6%                        |
| Total operating expenses                                 | 8,463                         | 7,032                     | 20.3%                         |
| Operating income   | 9,880                         | 1,740                     | 467.8%                        |
| Non-operating revenues:                                  |                               |                           |                               |
| Capital contributions                                    | 9,529                         | -                         | 100.0%                        |
| Investment income  | 1,354                         | 921                       | 47.0%                         |
| Total non-operating revenues                             | 10,883                        | 921                       | 1,081.7%                      |
| Income before transfers                                  | 20,763                        | 2,661                     | 680.3%                        |
| Transfers in   | 100,152                       | 150,000                   | -33.2%                        |
| Change in net position                                   | 120,915                       | 152,661                   | -20.8%                        |
| Net position, beginning of year                          | 365,236                       | 212,575                   | n/a                           |
| Net position, end of year                                | \$486,151                     | 365,236                   | 33.1%                         |

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Total Operating Revenues increased \$9.6 million (109.1%) from the prior year. The 26.9% decline in fees and 210.9% increase in interest earned from the prior fiscal year reflect the further maturation of NY Green Bank's Portfolio Investments, with interest revenue from existing transactions growing, with less revenue derived from transaction fees.

A Provision for losses on Loans and financing receivables in the amount of \$844,000 has been recorded as of March 31, 2018. This represents 0.3% of the total Loans and financing receivables balance at March 31, 2018.

Total Operating Expenses increased \$1.4 million (20.3%), most significantly driven by increases in Salaries and Benefits and Program Operating Costs, as discussed below.

Salaries and Benefits, which includes NY Green Bank staff salary expenses (\$2.9 million), NYSERDA allocated administrative salary expenses (\$1.2 million), and allocated fringe benefit expenses (\$1.6 million), increased \$1.3 million (30.8%) from the prior year. This occurred due to an increase in NY Green Bank's staffing as well as an increase in the overall pool of allocable expenses of which NY Green Bank pays its pro rata share (which share is calculated based on NY Green Bank's direct staffing costs as a proportion of NYSERDA's program staffing costs).

Investment Related Expenses, which include legal and other costs incurred for various Portfolio Investments, were 16.3% less than the previous year generally reflecting transaction volumes and counterparty reimbursement rates. Program Operating Costs increased \$0.2 million (26.0%) due to an increase in professional service expenses (e.g., consultants and temporary employees, including costs of third-party fund administration services).

General and Administrative Expenses, which include allocable costs such as rent, utilities, and insurance declined \$0.1 million (6.0%) due to a decrease in the allocable cost as compared to the prior year. Depreciation and NY State Assessments reflect NY Green Bank's allocable share of NYSERDA's depreciation and NYSERDA's cost recovery fee (CRF) assessment from the State of New York, respectively. The dollar amount of the CRF allocation declined due to a decrease in NY Green Bank's pro-rata share for the year, while the dollar amount of depreciation accounted for by NY Green Bank increased in line with an increase in NYSERDA's overall depreciation year-over-year.

Investment Income increased \$0.4 million (47.0%), directly reflecting NY Green Bank's higher average investment balance due to capital contributions of \$109.7 million and from capital repayments beginning to occur as the Portfolio Investments become more established.

Part of NY Green Bank's establishment involved the authorization of \$17.5 million of the initial capitalization of \$218.5 million for start-up and administration expenses. At March 31, 2018, NY Green Bank's cumulative (direct and indirect) operating expenses were \$25.1 million and for the same period, NY Green Bank's cumulative (operating and non-operating) revenues totaled \$32.6 million. Since the \$17.5 million in administrative expenses has now been expended, NY Green Bank's ongoing expenses are being met by revenues, with excess revenues being applied to NY Green Bank's Portfolio Investment activities. At March 31, 2018, such excess revenues totaled \$25.0 million (i.e., calculated as the sum of \$32.6 million and \$17.5 million, less cumulative expenses of \$25.1 million).

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets are purchased and owned by NYSERDA. NY Green Bank does not maintain capital assets on its Statement of Net Position, but instead is allocated depreciation expense on capital assets from NYSERDA.

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**ECONOMIC AND OTHER MARKET FACTORS**

Portfolio investments in, and funding of, clean energy projects may be impacted by a number of factors including, but not limited to, general economic conditions, energy prices, materials and equipment availability and costs, energy system reliability, energy technology advancements, and regulatory and public policy matters both within and beyond New York State.

**CONTACT FOR NY GREEN BANK'S FINANCIAL MANAGEMENT**

This report is designed to provide a general overview of the finances of NY Green Bank, a division of NYSERDA, for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to Jeffrey J. Pitkin, Treasurer and Chief Financial Officer, NYSERDA, 17 Columbia Circle, Albany, NY 12203.

NY Green Bank  
 (A Division of the New York State Energy Research and Development Authority)  
 Statement of Net Position  
 March 31, 2018  
 (with comparative totals for March 31, 2017)  
 (Amounts in thousands)

|  | March 31,<br>2018 | March 31,<br>2017 |
|--|-------------------|-------------------|
| <b><u>ASSETS:</u></b>                                    |                   |                   |
| Current assets:  |                   |                   |
| Cash and investments                                     | \$189,620         | 105,028           |
| Third-party billings receivable                          | 212               | 100               |
| Interest receivable on loans                             | 1,871             | 1,410             |
| Loans and financing receivables due within one year, net | 48,688            | 30,540            |
| Total current assets                                     | 240,391           | 137,078           |
| Non-current assets:                                      |                   |                   |
| Investments  | -                 | 649               |
| Loans and financing receivables - long term, net         | 246,654           | 228,001           |
| Total non-current assets                                 | 246,654           | 228,650           |
| Total assets   | 487,045           | 365,728           |
| <br><b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>         |                   |                   |
|  | 609               | 1,435             |
| <br><b><u>LIABILITIES:</u></b>                           |                   |                   |
| Current liabilities:                                     |                   |                   |
| Accrued liabilities                                      | 503               | 134               |
| Counterparty deposits                                    | 50                | -                 |
| Escrow deposits  | 25                | 210               |
| Total current liabilities                                | 578               | 344               |
| Non-current liabilities:                                 |                   |                   |
| Net pension liability                                    | 925               | 1,583             |
| Total liabilities  | 1,503             | 1,927             |
| <br><b><u>NET POSITION:</u></b>                          |                   |                   |
| Net position restricted for specific programs            | \$486,151         | 365,236           |

*See accompanying notes to the basic financial statements.*

NY Green Bank  
 (A Division of the New York State Energy Research and Development Authority)  
 Statement of Revenues, Expenses and Changes in Fund Net Position  
 For the year ended March 31, 2018  
 (with comparative totals for March 31, 2017)  
 (Amounts in thousands)

|   | March 31,<br>2018 | March 31,<br>2017 |
|---|-------------------|-------------------|
| <b><u>OPERATING REVENUES:</u></b>                       |                   |                   |
| Closing fees  | \$1,596           | 3,026             |
| Undrawn fees  | 376               | 250               |
| Administrative fees                                     | 55                | 40                |
| Other fees  | 457               | 83                |
| Loans and financing receivables interest                | 16,703            | 5,373             |
| Provision for losses on loans and financing receivables | (844)             | -                 |
| Total operating revenues                                | 18,343            | 8,772             |
| <b><u>OPERATING EXPENSES:</u></b>                       |                   |                   |
| Salaries and benefits                                   | 5,716             | 4,371             |
| Investment related expenses                             | 435               | 520               |
| Program operating costs                                 | 1,152             | 914               |
| General & administrative expenses                       | 920               | 979               |
| Depreciation  | 154               | 124               |
| NY State assessments                                    | 86                | 124               |
| Total operating expenses                                | 8,463             | 7,032             |
| <b>OPERATING INCOME</b>                                 | 9,880             | 1,740             |
| <b><u>NON-OPERATING REVENUES:</u></b>                   |                   |                   |
| Capital contributions                                   | 9,529             | -                 |
| Investment income                                       | 1,354             | 921               |
| Total non-operating revenues                            | 10,883            | 921               |
| <b>INCOME BEFORE TRANSFERS</b>                          | 20,763            | 2,661             |
| Transfers in  | 100,152           | 150,000           |
| Change in net position                                  | 120,915           | 152,661           |
| Net position, beginning of year                         | 365,236           | 212,575           |
| Net position, end of year                               | \$486,151         | 365,236           |

*See accompanying notes to the basic financial statements.*

NY Green Bank  
 (A Division of the New York State Energy Research and Development Authority)  
 Statement of Cash Flows  
 For the year ended March 31, 2018  
 (with comparative totals for March 31, 2017)  
 (Amounts in thousands)

|   | March 31,<br>2018 | March 31,<br>2017 |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                   |                   |
| Closing fees collected  | \$1,596           | 2,951             |
| Undrawn fees collected  | 311               | 238               |
| Administrative fees collected   | 55                | 40                |
| Other fees collected  | 457               | 80                |
| Loans and financing receivables interest collected  | 16,243            | 4,047             |
| Receipt of counterparty deposits  | 50                | -                 |
| Disbursement of escrow deposits   | (185)             | -                 |
| Payments to employees & employee benefit providers  | (5,548)           | (4,179)           |
| Payments to suppliers   | (2,187)           | (2,281)           |
| Payment for allocated depreciation  | (154)             | (124)             |
| Payments to NYS   | (85)              | (124)             |
| Loans and financing receivables deployed  | (180,872)         | (328,339)         |
| Loans and financing receivables principal repayments  | 143,227           | 79,811            |
| Net cash used in operating activities   | (27,092)          | (247,880)         |
| <br><b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>                                |                   |                   |
| Capital contributions   | 9,529             | -                 |
| Transfers in  | 100,152           | 150,000           |
| Net cash provided by non-capital financing activities                                       | 109,681           | 150,000           |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                   |                   |
| Purchase of investments   | (494,866)         | (331,215)         |
| Proceeds from sale of investments   | 424,641           | 426,773           |
| Investment income   | 1,208             | 2,578             |
| Net cash (used in) provided by investing activities   | (69,017)          | 98,136            |
| <br><b>Net change in cash:</b>  |                   |                   |
| Cash and cash equivalents, beginning of year  | 3,624             | 3,368             |
| Cash and cash equivalents, end of year  | \$17,196          | 3,624             |
| <br><b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED<br/>IN OPERATING ACTIVITIES:</b> |                   |                   |
| Operating income  | \$9,880           | 1,740             |
| Adjustments to reconcile operating income to net cash used in operating activities:         |                   |                   |
| Increase in third party billings receivable   | (112)             | (91)              |
| Increase in interest receivable   | (461)             | (1,327)           |
| Increase in loans and financing receivables   | (36,801)          | (248,528)         |
| Increase in accrued liabilities   | 369               | 134               |
| Increase in counterparty deposits   | 50                | -                 |
| Decrease in escrow deposits   | (185)             | -                 |
| Net change in pension related accounts  | 168               | 192               |
| Net cash used in operating activities   | (\$27,092)        | (247,880)         |

*See accompanying notes to the basic financial statements.*

**Notes to Basic Financial Statements**  
**March 31, 2018**

**(1) GENERAL**

The \$1.0 billion NY Green Bank was established to attract private sector capital to accelerate clean energy deployment in New York State (NYS or the State). To date, NY Green Bank has participated in transactions by providing: construction and longer-term post-construction financing and investment, financing to enable developers to aggregate smaller distributed assets into portfolios at scale, and credit enhancements.

NY Green Bank works to increase the size, volume, and breadth of clean energy and sustainable infrastructure investment activity throughout the State, expand the base of investors focused on NYS clean energy, and increase clean energy participants' access to capital. To do so, NY Green Bank collaborates with the private sector to develop transaction structures and methodologies that overcome typical clean energy investment barriers, such as challenges in evaluating risk and addressing the needs of distributed energy and efficiency projects where underwriting may be geared more towards larger projects and/or groups of somewhat homogeneous investment opportunities.

NY Green Bank focuses on opportunities that create attractive precedents, standardized practices, and roadmaps that capital providers can willingly replicate and scale. As funders "crowd in" to a particular area within the sustainable infrastructure and clean energy landscape, NY Green Bank moves on to other areas that have attracted less investor interest.

As a key component of New York's Clean Energy Fund (CEF), NY Green Bank is structured to be self-sustaining in that it must ultimately cover its own costs of operation. The CEF is a \$5.3 billion commitment, representing part of Governor Andrew M. Cuomo's Reforming the Energy Vision (REV) strategy to advance clean energy growth and innovation and drive economic development across the State while reducing ratepayer collections.

NY Green Bank is a division of the New York State Energy Research and Development Authority (NYSERDA). NYSERDA is a public benefit corporation established in 1975 pursuant to Title 9 of Article 8 of the Public Authorities Law of the State of New York. NYSERDA is included in the State's basic financial statements as a component unit.

Pursuant to a December 2013 Order of the NYS Public Service Commission (Commission), initial funding of \$165.6 million was made available to NY Green Bank from uncommitted NYSERDA and utility clean energy funds. In addition to the Commission Order, NYSERDA transferred \$52.9 million of its Regional Greenhouse Gas Initiative revenues to NY Green Bank for a total initial capitalization of \$218.5 million. In July 2015, the Commission issued an Order providing an additional \$150.0 million of capitalization to NY Green Bank, to be funded from certain uncommitted ratepayer program funds, subject to specified triggers. This further capital installment was received by NY Green Bank in August 2016, at which time its funded capital increased to \$368.5 million.

The January 2016 CEF Order confirmed NY Green Bank's authorized capital at \$1.0 billion and allocated incremental collections in varying amounts from 2016 through 2025 for the remaining \$631.5 million of NY Green Bank's \$1.0 billion capitalization, but also required a "Bill-As-You-Go" (BAYG) approach. The CEF Order also authorized the establishment of an external credit facility with a pledge of the incremental collections if and when necessary to meet NY Green Bank's future liquidity and capital deployment needs.

Pursuant to BAYG, NY Green Bank receives incremental capital contributions through NYSERDA upon executing new commitments of the authorized capital. In turn, NYSERDA funds these contributions either from a transfer of existing cash and investment balances (of certain Commission

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authorized programs), or from the CEF ratepayer collections held by the electric utilities. As part of U.S. generally accepted accounting standards (GAAP), the Governmental Accounting Standards Board (GASB) requires capital contributions made to NY Green Bank from NYSERDA's available cash and investment balances to be treated as transfers, while those derived directly from the BAYG approach be accounted for as non-operating revenues to NY Green Bank. As a result, additions to NY Green Bank's capital during the fiscal year equal the sum of "Capital contributions" under Non-operating revenues and "Transfers in" on NY Green Bank's Statement of Revenues, Expenses and Changes in Fund Net Position.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of presentation**

NY Green Bank is presented as a proprietary fund. Proprietary funds are used to report business-type activities for which a fee is charged to external users for goods or services. NY Green Bank's proprietary fund financial statements are designed to provide readers with a broad overview of NY Green Bank's finances in a manner similar to a private-sector business and consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

Net position restricted for specific programs in the proprietary fund financial statements is defined as the amount of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets.

The accompanying financial statements present only the activities of NY Green Bank and the results of its operations in conformity with GAAP and are not intended to present the financial position of NYSERDA. These financial statements include certain prior year comparative information but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with NY Green Bank's financial statements for the year ended March 31, 2017 from which the information was derived.

**(b) Basis of accounting**

Proprietary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues resulting from exchange transactions are recognized when the exchange takes place. Revenues resulting from non-exchange transactions are recognized when all eligibility requirements (if any) have been met. Expenses are recognized when incurred.

**(c) Program operating costs**

Program operating costs consist of certain costs that can be directly attributed to the NY Green Bank function. Program operating costs include expenses such as professional service costs and staff travel.

**(d) Indirect cost allocation method**

NYSERDA incurs certain indirect costs (e.g., administrative salary expense, fringe benefit expense, and general and administrative expense) that are not directly associated with a specific function/program. Therefore, these costs are allocated in proportion to direct salary expenses of each NYSERDA function/program, including NY Green Bank.

Administrative salary expense is comprised of an allocation of NYSERDA's administrative and support unit salaries and fringe benefit expenses. The administrative salary and fringe benefit expenses allocated to NY Green Bank are included in Salaries and Benefits Expense. General and

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Administrative Expense includes costs such as rent, equipment and facility costs, and information technology costs allocated to NY Green Bank.

**(e) Investments**

Investments are recorded at fair value, which reflects quoted market prices for U.S. government obligations.

**(h) Loans and financing receivables**

Loans and financing receivables are recorded at their cost basis, less any provision for losses, established on individual loans and financing receivables where it is deemed probable that NY Green Bank will be unable to collect amounts due under contractual terms by NY Green Bank's Investment & Risk Committee.

**(g) Capital assets**

NY Green Bank does not maintain capital assets on its Statement of Net Position, but instead is allocated depreciation expense on NYSERDA capital assets. Depreciation is allocated in proportion to direct salary expenses of each NYSERDA function/program, including NY Green Bank.

**(h) Deferred outflows of resources**

Deferred outflows of resources as presented represent a consumption of net assets applicable to a future reporting period, less deferred inflows of resources, which are defined as an acquisition of net assets applicable to a future reporting period. Deferred outflows of resources include differences between expected projected results and actual results related to NY Green Bank's allocated portion of NYSERDA's proportionate share of the New York State and Local Retirement System cost-sharing retirement plan, as well as an allocated portion of retirement plan contributions subsequent to the measurement date.

**(i) NY State assessments**

NY State assessments represent NY Green Bank's pro-rata share of fees assessed to NYSERDA by the State under Section 2975 of the Public Authorities Law (Governmental Cost Recovery System) for general governmental services, which are allocated in proportion to total expenses of each NYSERDA function/program, including NY Green Bank.

**(j) Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) CASH AND INVESTMENTS**

Pursuant to Public Authorities Law Section 1859(1), the Commissioner of the New York State Department of Taxation and Finance (Fiscal Agent) serves as fiscal agent for NYSERDA's cash and investments, maintaining such funds on NYSERDA's behalf and implementing investments subject to the Fiscal Agent's policies and with direction and authorization from NYSERDA. NY Green Bank investments are subject to an investment policy approved by NYSERDA's Board. The policy permits deposits with financial institutions approved by the Fiscal Agent and permits investments in: certificates of deposit of bank or trust companies located in New York State, obligations of New York State and the U.S. government and certain of their agencies, repurchase agreements subject to certain limitations, and money market funds subject to certain limitations.

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The following schedule presents NY Green Bank's cash and investments as of March 31, 2018. Fair value is measured using quoted market prices for U.S. government obligations. GASB No. 72 prescribes three approaches to measuring fair value and requires a government to use valuation techniques consistent with one or more of these approaches. The standard establishes a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs – other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All NY Green Bank investments are valued based on Level 1 inputs.

|                         | <u>Fair Value</u> | <u>% of Total</u> | <u>Weighted Average Maturity (months)</u> |
|-------------------------|-------------------|-------------------|---|
| Cash and money market   | 17,196            | 9.1               | n/a                                       |
| U.S. Treasury Bills     | 171,770           | 90.6              | 2.1                                       |
| U.S. Treasury Strips    | <u>654</u>        | <u>0.3</u>        | <u>5.2</u>                                |
| Total                   | <u>\$189,620</u>  | <u>100.0</u>      | <u>2.1</u>                                |
| Current portion thereof | <u>\$189,620</u>  |                   |   |

*Interest Rate Risk.* NYSERDA's investment policy limits investment maturities to no longer than five years as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities are selected based on anticipated cash flow needs.

*Concentration of Credit Risk.* NYSERDA's investment policy limits investments with any single eligible banking institution to no more than 35% of its total investment portfolio, except as otherwise required by any policies and practices of the Fiscal Agent. As of March 31, 2018, NYSERDA did not have any investments with institutions that were individually in excess of 5% of total investments.

*Custodial Credit Risk for Deposits.* Deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance or deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging institution's trust department or agent, but not in the name of NYSERDA.

In accordance with existing policies and procedures, the Fiscal Agent for NYSERDA monitors deposit balances for the purpose of determining collateralization levels. Collateral sufficient to cover all uninsured deposits is held at the Fiscal Agent's custodial bank.

*Custodial Credit Risk for Investments.* Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of NYSERDA and are held either by the counterparty or the counterparty's trust department or agent, but not in the name of NYSERDA.

Fixed income investments owned directly by NYSERDA including those held on behalf of NY Green Bank, which trade in the U.S. markets, are held at NYSERDA's fiscal agent's custodian, in separate accounts, in the name of the Comptroller of the State of New York in Trust for NYSERDA. These securities are typically held in electronic form through the Federal Book Entry System and by the Depository Trust Company (DTC) and its subsidiaries acting as an agent of NYSERDA's fiscal agent's custodian bank.

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**March 31, 2018**

The following is a summary of cash and investments and related committed capital as of March 31, 2018:

*(Amounts in thousands)*

| <u>Cash and<br/>Investments</u> | <u>Committed<br/>Capital</u> |
|---------------------------------|------------------------------|
| \$189,620                       | \$78,154                     |

NY Green Bank's investment portfolio at any time consists of two components: committed capital and deployed capital. Committed capital relates to clean energy/sustainable infrastructure investments that NY Green Bank has legally executed, but where capital has not yet been deployed. This is supplemented by capital that has been deployed into NY Green Bank's clean energy transactions, pursuant to the terms of those arrangements. At March 31, 2018, NY Green Bank committed capital was \$78.1 million and deployed capital was \$296.2 million, as discussed further in note 4.

**(4) LOANS AND FINANCING RECEIVABLES**

Loans and financing receivables consist of sustainable infrastructure investments made by NY Green Bank into eligible technologies, consistent with its mission and investment criteria. These loans and financing transactions aim to mobilize private sector capital during the lifecycle of each investment, accelerate the deployment of economically and technically feasible clean energy projects in the State, provide financial returns to NY Green Bank, and contribute to New York's clean energy policy outcomes. NY Green Bank offers the following categories of capital solutions: construction finance, construction finance & term loan, term loans & investments (which may be debt or equity), warehousing/aggregation, and credit enhancements. NY Green Bank prices its products to reflect its credit underwriting, its risk position in the capital structure and pricing for comparable transactions, as well as internal portfolio return needs taking into account current market rates as well as commercial expectations of rates.

\$0.8 million has been recorded for impairment to the reported value of Loans and financing receivables as of March 31, 2018.

Loans and financing receivables at March 31, 2018 include the following:

|   | <i>(Amounts in thousands)</i>     |  |                            |
|---|-----------------------------------|--|----------------------------|
|   | <u>Number of<br/>Transactions</u> | <u>Loans and Financing<br/>Receivables<br/>Outstanding</u> | <u>Undrawn<br/>Balance</u> |
| Construction Finance                                    | 1                                 | \$13,676   | \$6,860                    |
| Construction Finance & Term Loan                        | 5                                 | 26,151   | -                          |
| Term Loan & Investments                                 | 10                                | 163,397  | 20,047                     |
| Warehousing /Aggregation                                | <u>8</u>                          | <u>92,962</u>  | <u>45,793</u>              |
| Total business-type activities/proprietary fund         | <u>24</u>                         | <u>296,186</u>   | <u>\$72,700</u>            |
| Provision for losses on loans and financing receivables |                                   | <u>(844)</u>   |                            |
| Net total business-type activities/proprietary fund     |                                   | <u>\$295,342</u>   |                            |

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The table above does not include the two Credit Enhancement products in NYGB's portfolio, which sum to \$5.5 million, discussed further in note 6.

Loans and financing receivables at March 31, 2018 mature as follows:

*(Amounts in thousands)*

| Fiscal year<br>ending<br><u>March 31,</u> | Construction<br><u>Finance</u> | Construction<br>Finance & Term<br><u>Loan</u> | Term Loan &<br><u>Investments</u> | Warehousing<br><u>/Aggregation</u> | <u>Total</u>   |
|---|--------------------------------|---|-----------------------------------|------------------------------------|----------------|
| 2019                                      | \$-                            | 1,150   | 26,997                            | 21,385                             | 49,532         |
| 2020                                      | 13,676                         | 1,707   | 24,018                            | -                                  | 39,401         |
| 2021                                      | -                              | 1,262   | 33,672                            | 34,033                             | 68,967         |
| 2022                                      | -                              | 1,388   | 45,502                            | 586                                | 47,476         |
| 2023                                      | -                              | 1,476   | 10,206                            | 13,626                             | 25,308         |
| 2024-2028                                 | -                              | 13,626  | 17,600                            | 23,332                             | 54,558         |
| 2029-2033                                 | -                              | 3,381   | 4,919                             | -                                  | 8,300          |
| 2034-2038                                 | -                              | <u>2,161</u>                                  | <u>483</u>                        | -                                  | <u>2,644</u>   |
| Total                                     | <u>\$13,676</u>                | <u>26,151</u>                                 | <u>163,397</u>                    | <u>92,962</u>                      | <u>296,186</u> |

**5) NON-CURRENT LIABILITIES**

NYSERDA and NY Green Bank adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) in the fiscal year ended March 31, 2016. GASB 68 requires the recognition by NYSERDA and, in turn, NY Green Bank, of its proportionate share of the net pension liability of the New York State and Local Employees' Retirement System, which is defined as the total pension liability less the plan's fiduciary net position.

NY Green Bank's non-current liability represents the share of NYSERDA's net pension liability which is expected to be paid by NY Green Bank. Pension-related deferred outflows of resources are recognized by NY Green Bank to the extent they relate to NY Green Bank's share of the total amount recognized by NYSERDA as a whole.

Non-current liability activity for the year ended March 31, 2018 was as follows:

*(Amounts in thousands)*

|                       | Beginning<br><u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending<br><u>Balance</u> |
|-----------------------|-----------------------------|------------------|-------------------|--------------------------|
| Net pension liability | <u>\$1,583</u>              | <u>632</u>       | <u>(1,290)</u>    | <u>925</u>               |

**(6) CONTINGENCIES**

Risk Management

NYSERDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NYSERDA maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to NYSERDA. NYSERDA has not experienced any reductions in coverage and has not had any insurance settlements exceeding the coverage in the past three years. NY Green Bank is covered by NYSERDA's insurance policies.

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Credit Enhancements

As of March 31, 2018, NY Green Bank has entered into two credit enhancement contracts totaling \$5.5 million which, consistent with their terms, have not been funded but contain contingent obligations. NY Green Bank capital is only drawn if a contingent obligation under either agreement is triggered.

In May 2014, NY Green Bank provided Energy Improvement Corporation (EIC), a NYS Local Development Corporation and a non-profit organization established to assist municipalities and commercial property owners achieve long-term energy savings and reduce overall energy consumption with a \$500,000 Irrevocable Standby Letter of Credit ("LC No. 1") serving two purposes: providing the federal credit support required by the NYS Property Assessed Clean Energy (PACE) enabling legislation and protecting municipalities from absolute loss if proceeds from the eventual liquidation and sale of a defaulted property were less than the property owner's outstanding PACE loan balance.

In December 2015, NY Green Bank provided EIC with a second Irrevocable Standby Letter of Credit ("LC No. 2") in the amount of \$5.0 million to help establish a reserve fund to support participating municipalities' obligations to pay PACE debt service to EIC if collections of PACE charges are insufficient, whether due to late payment or default by the property owner.

Any draws made on LC No. 1 or LC No. 2 would be due to be repaid pursuant to the terms of the agreements with EIC.

**(7) TRANSFERS**

Transfers in represents additional capitalization of \$100.2 million from NYSERDA pursuant to the CEF Order, as further discussed in note 1.