

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
A COMPONENT UNIT OF THE DISTRICT OF COLUMBIA GOVERNMENT
FINANCIAL STATEMENTS
(Together with Reports of Independent Public Accountants)
SEPTEMBER 30, 2021, and 2020

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, and 2020

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Mayor and Council of the Government of the District of Columbia
and the Board of Directors of the District of Columbia Green Finance Authority
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of the District of Columbia Green Finance Authority (DC Green Bank), a component unit of the Government of the District of Columbia, as of and for the years ended September 30, 2021, and 2020 (year of inception), and the related notes to the financial statements, which collectively comprise DC Green Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

DC Green Bank's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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 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 controls 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 controls. 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 DC Green Bank as of September 30, 2021, and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021 on our consideration of DC Green Bank's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DC Green Bank's internal controls over financial reporting and compliance.

Washington, D.C.
December 15, 2021

SB & Company, LLC

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY

(A Component Unit of the Government of the District of Columbia)

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2021, and 2020

FINANCIAL HIGHLIGHTS

Introduction

The following is a discussion and analysis of the District of Columbia Green Finance Authority (DC Green Bank or the Bank) financial performance as of and for the fiscal years ended September 30, 2021, and 2020. This information should be read in conjunction with the financial statements and the accompanying notes, which follow this discussion and analysis.

About Our Business

Pursuant to the Green Finance Authority Establishment Act of 2018 (D.C. Law 22-155; D.C. Official Code § 8-173.01 et seq.), the DC Green Bank was established as an independent instrumentality of the Government of the District of Columbia (District of Columbia). DC Green Bank was created to increase the use of private funds for sustainable projects and programs by offering and promoting the use of loans, loan guarantees, credit enhancements, bonds, or other financing mechanisms for sustainable projects and programs.

DC Green Bank is governed by an 11-member Board of Directors, comprised of seven voting members, appointed by the Mayor, with the advice and consent of the Council of the District of Columbia (the Council). These individuals include: two (2) members with experience at a financial institution operating within the District; three (3) members with financial, project development, or legal experience in clean energy, clean infrastructure, clean transportation, stormwater management, or green infrastructure; and two (2) members with experience in affordable housing or community development.

The Board of Directors also includes four nonvoting ex-officio members, or their designees, which include the Director of Department of Energy and Environment, the Deputy Mayor for Planning and Economic Development, Executive Director of the Office of Public-Private Partnerships, and the District Chief Financial Officer.

Pursuant to DC Green Bank's enabling legislation, the Board of Directors may create additional advisory groups as it considers appropriate. The advisory groups provide the Board of Directors with recommendations on various matters and such groups do not have authority to act for, or on behalf, of the DC Green Bank.

Pursuant to the Green Finance Authority Establishment Act of 2018 (D.C. Law 22-155; D.C. Official Code § 8-173.01 et seq.), DC Green Bank's initial funding of \$7.0 million a year for five years, fiscal years 2018 through 2023, is provided from the District's Renewable Energy Development Fund (REDF). In addition to the funding from REDF, the Clean Energy DC Omnibus Amendment Act of 2018 calls for the transfer of \$15.0 million in fiscal year 2020 and 2021 and \$10.0 million a year for fiscal years 2022 through 2025, from the District's Sustainable Energy Trust Fund (SETF) to support sustainable projects and programs; provided, the transfer is included in an approved budget and financial plan.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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In fiscal year 2021, there was an amendment to the SETF statute stating that the SETF will transfer at least \$10.0 million, but no more than \$15.0 million, to the Green Finance Authority in fiscal years 2022 through 2025, provided that the total amount of money transferred to the Green Finance Authority from the SETF in fiscal years 2020 through 2025 shall not exceed \$70.0 million.

DC Green Bank offers and is developing products that accelerate the clean energy transition and seek to lower barriers to the adoption of clean energy technology and make energy projects more accessible and more affordable through financing instruments and incentives. These products are offered to District residents, small business owners, and commercial developers working towards energy efficiency improvements, clean energy installations, and the construction of green infrastructure.

- The D.C. Law 22-155. Green Finance Authority Establishment Act of 2018 became effective on August 22, 2018. DC Green Bank began operations on October 1, 2019, the start of the fiscal year 2020.
- As noted in Table I on page 6, DC Green Bank's total assets exceeded liabilities by \$40.7 million and \$25.5 million, as of September 30, 2021, and 2020, respectively, which is classified and reported as restricted and unrestricted net position in the Statement of Net Position. The restricted net position represents funds that are to be used for specified purposes.
- In fiscal year 2021, the Bank issued three (3) promissory notes: one promissory note totaling \$1.7 million which was due in full including interest on September 30, 2021 – this note has been extended; one promissory note in August of 2021 for \$250 thousand and one promissory note in July of 2021 in the amount of \$650 thousand. DC Green Bank issued a total of eight (8) promissory notes in fiscal year 2020: seven promissory notes in June 2020, totaling \$1.0 million, which were due in full including interest on March 15, 2021; and one promissory note in August 2020 for \$762 thousand. These notes have been subsequently paid in full.
- Operating revenue earned in the fiscal years ended September 30, 2021, and 2020 was \$100 thousand and \$41 thousand, respectively. Non-Operating revenue remains constant for both periods reported with a balance of \$36 thousand and \$37 thousand, respectively. Operating expenses were \$2.9 million and \$591 thousand for fiscal years ended September 30, 2021, and 2020, respectively, which were greater than operating and non-operating revenues resulting in a loss before transfers of \$2.8 million and \$550 thousand for the fiscal years ended September 30, 2021, and 2020, respectively. Transfers from the District government totaled \$18.0 million and \$26.0 million for the fiscal years ended September 30, 2021, and 2020, respectively, resulting in the net position of \$40.7 million and \$25.5 million as of September 30, 2021, and 2020, respectively. Refer to Table II on page 8 for further detail.

In September 2020, DC Green Bank established a Commercial Loan for Energy Efficiency and Renewables (CLEER) Program (the "Program") to facilitate the financing, acquisition, and installation of energy efficiency improvements and related equipment and renewable energy technologies in commercial properties located in Washington, D.C. owned or leased by eligible borrowers.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021, and 2020

Overview of the Financial Statements

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the DC Green Bank's basic financial statements. DC Green Bank's financial statements include three financial statements: The Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows. These financial statements and the related notes provide information about the financial activities of DC Green Bank.

1. ***Statement of Net Position*** – The Statement of Net Position presents information on DC Green Bank's assets, liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of DC Green Bank is improving or deteriorating.
2. ***Statement of Revenues, Expenses, and Change in Net Position*** – The Statement of Revenues, Expenses, and Change in Net Position report operating and non-operating revenues and expenses for the fiscal year. The increase or decrease in net position is presented as the change in net position for 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 that are reported for some items will result in cash flows in future fiscal periods.
3. ***Statement of Cash Flows*** – The Statement of Cash Flows presents information showing how DC Green Bank's cash and cash equivalents changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of those activities is reconciled to the cash and cash equivalents balances reported as of the end of the fiscal year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received, and how much cash was disbursed. The statement also reconciles the change in operating net position to the net cash used in operating activities.
4. ***Notes to the Financial Statements*** – The Notes to the Financial Statements provide additional information that is essential for a complete understanding of the data provided in the basic financial statements.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021, and 2020

FINANCIAL ANALYSIS

Condensed Financial Information

The following table provides a summary of DC Green Bank's total assets, liabilities, and net position as of September 30, 2021, and 2020.

Table I - Condensed Schedule of Net Position
As of September 30, 2021, and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents - unrestricted	\$ 14,055,606	\$ 5,022,300
Cash and cash equivalents - restricted	13,253,832	12,390,830
Investments	4,996,850	-
Due from District of Columbia	7,000,000	7,000,000
Program loans receivable	1,956,117	1,462,460
Prepaid expenses	12,397	8,469
Total Assets	<u>41,274,802</u>	<u>25,884,059</u>
Liabilities		
Current Liabilities	526,596	386,736
Noncurrent Liabilities	<u>57,564</u>	<u>10,241</u>
Total Liabilities	<u>584,160</u>	<u>396,977</u>
Net Position		
Unrestricted	27,012,783	12,022,300
Restricted	<u>13,677,859</u>	<u>13,464,782</u>
Total Net Position	<u>\$ 40,690,642</u>	<u>\$ 25,487,082</u>

For the fiscal years ended September 30, 2021, and 2020, DC Green Bank engaged in several start-up activities including hiring staff and developing systems, operating policies, processes, and protocols to establish a variety of financial products targeted toward its mandate to advancing sustainability, the clean economy, and inclusive prosperity in the District.

For the fiscal years 2021 and 2020, DC Green Bank portfolio investments relate to solar construction, energy efficiency, storm water abatement, and pre-development financing. Pursuant to the contractual loan arrangements, not all funds that DC Green Bank approved are disbursed immediately. These financings are "delayed draw" by design in that funds are not deployed until the projects meet certain set milestones or levels of percentage of completion. These funds are deposited in a secured account with our loan servicers to be disbursed over time as draws are requested from borrowers. Once the project is implemented, borrowers begin drawing down on capital over time.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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In fiscal years 2021 and 2020, DC Green Bank partnered with a local solar developer to fund the construction of a portfolio of Solar for All projects on affordable housing sites in Wards 7 and 8. Funds committed for these projects in 2021 include a note for \$1.7 million. Funds drawn as of September 30, 2021, were \$1.6 million. For the fiscal year 2020, funding includes eight (8) loans totaling \$1.8 million. The funds drawn on these loans as of September 30, 2020, totaled \$1.5 million. In July of 2021, the DC Green Bank provided a \$650 thousand revolving credit facility to a local sustainable infrastructure company to construct up to 5 new stormwater retention projects in Wards 5, 7, and 8. As of September 30, 2020, funds drawn down on this facility totaled \$176 thousand. In August of 2021, DC Green Bank provided \$250 thousand pre-development debt financing for an affordable housing developer to design a new land conversion as a mixed-use property with green building certifications. Funds drawn on this facility as of September 30, 2021, were \$212 thousand.

Total assets of the DC Green Bank as of September 30, 2021, and 2020, were \$41.3 million and \$25.9 million, respectively. This was mainly the result of the District government's capitalization of the DC Green Bank. Pursuant to the Green Finance Authority Establishment Act of 2018 (D.C. Law 22-155; D.C. Official Code § 8-173.01 et seq.) and the Clean Energy DC Omnibus Amendment Act of 2018, approximately \$18.0 million and \$26.0 million was made available to the DC Green Bank in fiscal year 2021 and 2020, respectively. The funding consists of \$3.0 million and \$14.0 million from the District's Renewable Energy Development Fund (REDF) in fiscal years 2021 and 2020, respectively, and \$15.0 million and \$12.0 million in fiscal years 2021 and 2020, respectively, from the District's Sustainable Energy Trust Fund (SETF).

Unrestricted cash and cash equivalents as of September 30, 2021, and 2020 were \$14.1 million and \$5.0 million, respectively. Restricted cash and cash equivalents were \$13.3 million and \$12.4 million, respectively. Program loans receivable amounts of \$2.0 million and \$1.5 million represents loans as of September 30, 2021, and 2020, respectively.

DC Green Bank's total liabilities was \$584 thousand and \$397 thousand as of September 30, 2021, and 2020, respectively, and are comprised mainly of current liabilities, which include accounts payable \$254 thousand and \$145 thousand, accrued payroll of \$61 thousand and \$28 thousand, unearned interest \$47 thousand and \$84 thousand, construction loan retainage of \$148 thousand and \$130 thousand, and compensated absences \$58 thousand and \$10 thousand, respectively.

Net position, the difference between DC Green Bank's assets and its liabilities, as of September 30, 2021, and 2020 was \$40.7 million and \$25.5 million, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021, and 2020

The following table presents condensed financial information from the Statement of Revenues, Expenses, and Change in Net Position for the fiscal years ended September 30, 2021, and 2020.

Table II - Condensed Schedule of Revenues, Expenses, and Change in Net Position
For the Years Ended September 30, 2021, and 2020

	2021	2020
Operating Revenue	\$ 100,208	\$ 41,066
Operating Expenses	<u>2,932,476</u>	<u>590,800</u>
Operating Loss	(2,832,268)	(549,734)
Non-Operating Revenues	35,828	36,816
Transfers from the District of Columbia	<u>18,000,000</u>	<u>26,000,000</u>
Change in Net Position	15,203,560	25,487,082
Net position, beginning of the year	<u>25,487,082</u>	<u>-</u>
Net Position, End of the Year	<u>\$ 40,690,642</u>	<u>\$ 25,487,082</u>

During the fiscal years ended September 30, 2021, and 2020, DC Green Bank's operating revenues totaled \$100 thousand and \$41 thousand, respectively. The operating revenues are from program fees and interest charged to the project loans.

The non-operating revenues of \$36 thousand and \$37 thousand were derived from funds provided by the District government, for operating purposes in fiscal years 2021 and 2020, respectively. DC government transfers represent the capitalization of \$18.0 million and \$26.0 million that was made available to the DC Green Bank in fiscal years 2021 and 2020, respectively.

Capital Assets and Debt Administration

The DC Green Bank has no capital assets and no long-term liabilities as of September 30, 2021, and 2020.

Budgetary Controls

DC Green Bank will adopt an operating budget, that will be approved by its Board of Directors in September of each year, for the subsequent fiscal year. Before approval by the Board, the budget is reviewed in detail and adjusted, if necessary. After approval by the Board of Directors, DC Green Bank will submit its annual operating budgets to the Mayor and Council of the District of Columbia. The budget for fiscal years 2021 and 2020 was \$30.5 million and \$28.0 million, respectively.

Fees and other income were originally budgeted assuming more favorable interest rates during the fiscal years presented. Total operating expenses were approximately \$2.9 million and \$591 thousand for the fiscal years ended September 30, 2021, and 2020, respectively. The increase was driven primarily by increases in salaries and benefits. In 2021, as a result of filling all vacancies budgeted for in 2020 but were not filled until fiscal 2021, salaries were \$1.6 million, compared to \$154 thousand in 2020, an increase of \$1.5 million, well within the budgeted amount. Other operating costs increased as the Bank focused on building the foundational infrastructure of the institution. These costs were less than budgeted primarily due to lower than anticipated general and administrative operating costs.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2021, and 2020

Economic Outlook

Programs and future capitalization of the DC Green Bank will be impacted by the unpredictable and devastating impacts from the COVID-19 pandemic (see footnote 8).

Request for Information

This financial report is designed to provide a general overview of the Bank's finances for all those with an interest in its finances. Additional information regarding the Bank's financial statements may be obtained from DC Green Banks' Controller, Jean Houpert, jhoupert@dgreenbank.com.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2021, AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents - unrestricted	\$ 14,055,606	\$ 5,022,300
Cash and cash equivalents - restricted	13,253,832	12,390,830
Investments	4,996,850	-
Due from District of Columbia	7,000,000	7,000,000
Program loans receivable	1,956,117	1,462,460
Prepaid expenses	12,397	8,469
Total Assets	<u>41,274,802</u>	<u>25,884,059</u>
LIABILITIES		
Accounts payable and accrued expenses	254,396	145,145
Accrued payroll	61,003	27,796
Interest reserve	46,963	83,788
Unearned revenue	15,987	-
Construction loan retainage	148,247	130,007
Noncurrent liabilities:		
Compensated absences	57,564	10,241
Total Liabilities	<u>584,160</u>	<u>396,977</u>
NET POSITION		
Unrestricted	27,012,783	12,022,300
Restricted	13,677,859	13,464,782
Total Net Position	<u>\$ 40,690,642</u>	<u>\$ 25,487,082</u>

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

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2021, AND 2020 (YEAR OF INCEPTION)

	<u>2021</u>	<u>2020</u>
Operating Revenue		
Interest on program loans receivable	\$ 82,597	\$ 18,766
Program fees	17,611	22,300
Total Operating Revenue	<u>100,208</u>	<u>41,066</u>
Operating Expenses		
Salaries and benefits	1,647,911	153,663
General and administrative	1,146,118	249,176
Other operating expenses	138,447	187,961
Total Operating Expenses	<u>2,932,476</u>	<u>590,800</u>
Operating Loss	<u>(2,832,268)</u>	<u>(549,734)</u>
Non-Operating Revenue (Expense)		
Interest income	37,716	6,132
Investment income	460	30,684
Unrealized loss on investments	(2,348)	-
Total Non-Operating Revenue	<u>35,828</u>	<u>36,816</u>
Loss Before Transfers	<u>(2,796,440)</u>	<u>(512,918)</u>
Transfers from the District of Columbia		
Local funding (REDF) - Renewable Energy Development Fund	3,000,000	14,000,000
Local funding (SETF) - Sustainable Energy Trust Fund	15,000,000	12,000,000
Total Transfers from the District of Columbia	<u>18,000,000</u>	<u>26,000,000</u>
Change in net position	15,203,560	25,487,082
Net position, beginning of year	25,487,082	-
Net Position, End of Year	<u>\$ 40,690,642</u>	<u>\$ 25,487,082</u>

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

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021, AND 2020 (YEAR OF INCEPTION)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Payment to employees and benefit providers	\$ (1,567,381)	\$ (115,626)
Payments to suppliers and contractors	(1,163,255)	(300,461)
Loan program disbursement	<u>(412,034)</u>	<u>(1,207,599)</u>
Net Cash Flows Used by Operating Activities	<u>(3,142,670)</u>	<u>(1,623,686)</u>
Cash Flows From Non-Capital Financing Activities		
Transfers from the District of Columbia	<u>18,000,000</u>	<u>19,000,000</u>
Net Cash Flows Provided in Non-Capital Financing Activities	<u>18,000,000</u>	<u>19,000,000</u>
Cash Flows From Investing Activities		
Purchase of investments	(5,000,743)	-
Sales of investments	3,893	-
Interest Income	37,716	6,132
Investment Income	460	30,684
Unrealized loss on investments	<u>(2,348)</u>	<u>-</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>(4,961,022)</u>	<u>36,816</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,896,308	17,413,130
Cash and cash equivalents at October 1	<u>17,413,130</u>	<u>-</u>
Cash and Cash Equivalents at September 30	<u>\$ 27,309,438</u>	<u>\$ 17,413,130</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Loss from operation	\$ (2,832,268)	\$ (549,734)
Change in assets and liabilities:		
Increase in program loans receivable	(493,657)	(1,462,460)
Increase in prepaid expenses	(3,928)	(8,469)
Increase in accounts payable	109,251	145,145
Increase in accrued payroll	33,207	27,796
Increase in retainage	18,240	130,007
Increase in unearned revenue	15,987	-
(Decrease) increase in interest reserve	(36,825)	83,788
Increase in compensated absences	<u>47,323</u>	<u>10,241</u>
Net cash provided (used) by operating activities	<u>\$ (3,142,670)</u>	<u>\$ (1,623,686)</u>

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

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District of Columbia Green Finance Authority (DC Green Bank) conform to U.S. Generally Accepted Accounting Principles (GAAP) as applicable to government enterprises. The following is a summary of DC Green Bank's significant accounting policies:

- ***Reporting Entity***

On July 2, 2018, Mayor Bowser signed the District of Columbia Green Finance Authority Establishment Act of 2018 (the Act), creating DC Green Finance Authority, commonly known as DC Green Bank, as an independent instrumentality of the District of Columbia. As a part of DC's Sustainable DC Plan, the DC Department of Energy & Environment (DOEE) incubated the launch of DC Green Bank after the passage of the Act.

Our Board of Directors organized at its inaugural meeting held on July 25, 2019, officially setting DC Green Bank on its journey. DC Green Bank launched its virtual operations in April 2020 amidst the global COVID-19 pandemic crisis and acute civil unrest, highlighting the urgent need to advance sustainability and social justice together.

In pursuit of DC's ambitious Sustainable DC, Clean Energy, and Climate Readiness goals, DC Green Bank acts as a catalytic force for the District's clean economy, supporting our city's alignment with the Paris Climate Agreement. We seek to make clean energy and sustainable choices the most affordable, practical, and easiest ones for all.

As DC's clean economy accelerator, we will serve as a model sustainable capital provider that drives local businesses and stakeholders to achieve inclusive prosperity in a clean economy for the people of DC.

Shortly after launching operations, in June 2020, DC Green Bank closed and funded its first construction loan portfolio to the Solar For All award recipient to deploy solar renewable energy technologies at multifamily buildings located in District Wards 7 and 8.

DC Green Bank is a component unit of the District of Columbia Government, operating as an independent instrumentality.

- ***Measurement Focus, Basis of Accounting, and Basis of Presentation***

DC Green Bank's basic financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The economic measurement focus reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations and is included on the Statement of Net Position.

The financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB) and are presented as required by these standards to provide a comprehensive perspective of DC Green Bank's net position, change in net position, and cash flows.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Measurement Focus, Basis of Accounting, and Basis of Presentation (continued)***

For the purposes of financial reporting, DC Green Bank is considered to be a single enterprise fund. However, for accounting purposes, and to ensure observation of limitations and restrictions placed on the use of the resources available to DC Green Bank, accounts are maintained in accordance with the principles of fund accounting.

- ***Use of Restricted Components of Net Position***

As of September 30, 2021, and 2020, DC Green Bank's funding primarily came from the Renewable Energy Development Fund (REDF) and the Sustainable Energy Trust Fund (SETF). Funds from the SETF can be used to support all of DC Green Bank's operating purposes and thus are considered unrestricted funds in net position. Funds from the REDF can also be used for DC Green Bank's operations that support the creation of new solar in the District, and any project or program which DC Green Bank funds with REDF funds must also support the creation of new solar in the District. As such, DC Green Bank considers any net position from REDF funds to be restricted.

- ***Cash and Cash Equivalents***

DC Green Bank considers all highly liquid instruments purchased with an original maturity of less than ninety (90) days to be cash equivalents. As of September 30, 2021, and 2020, cash equivalents consisted of a money market sweep account.

- ***Short-Term Investments***

DC Green Bank considers short-term investments as an investment that can be converted to cash after a period of only 3-12 months. DC Green Bank categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are valuations based on unadjusted quoted prices for identical assets or liabilities in active markets; Level 2 inputs are valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and Level 3 inputs are valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

- ***Program Loans Receivable***

Program loans receivable, which are recorded at cost disbursed, is related to any loans offered by DC Green Bank, less any write-off for impairment.

- ***Allowance for Uncollectible Loans***

DC Green Bank establishes an allowance for uncollectible loans for all loans receivable based on management review of the status of each specific loan. As of September 30, 2021, and 2020, management believes that all loans are fully collectible and have not recorded an allowance.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Construction Loan Retainage***

For each construction loan in the current portfolio, DC Green Bank holds a 10 percent retainage on the current loan proceeds that will be paid back to the borrower at the completion of the project. As of September 30, 2021, and 2020, construction loan retainage due to borrowers was \$148 thousand and \$130 thousand, respectively.

- ***Interest Reserve***

Each loan in the current portfolio contains an interest reserve, which allows the interest payments that become due during the construction period to be paid out of loan proceeds. DC Green Bank holds the interest reserve funds in a segregated bank account. As monthly interest payments become due, funds are moved from the interest reserve bank account to the operating bank account to signify payment and are recognized as interest revenue in the accompanying statement of revenues, expenses, and change in net position.

- ***Revenue Recognition***

Revenues are recorded when earned. Interest revenue on program loans receivable is recorded monthly as interest becomes due in accordance with the executed loan agreement. Program fee revenue is recognized on the closing date of the loan and is fully earned and non-refundable. Following Accounting Standards Codification (ASC 310-20-25-2) DC Green Bank defers loan origination fees and is recognized over the term of the executed loan agreement. Investment income includes interest on the money market sweep account and is recorded on an accrual basis.

DC Green Bank receives funding from the District of Columbia to fund sustainable projects, including new solar and solar-related projects and programs, and to support general operations. This revenue is recorded when funds are committed by the District of Columbia and is recorded as transfers from the District of Columbia in the accompanying statement of revenues, expenses, and change in net position.

- ***Compensated Absences***

DC Green Bank accrues a liability for annual leave based on salary rates and accumulated leave hours as of September 30 and the related employer's share of FICA. Generally, employees earn up to 160 hours of annual leave during the year and may carry over 80 hours of annual leave. The accrued maximum annual leave balance is payable to employees upon termination of employment.

- ***Components of Net Position***

Restricted - Restricted net position consists of funds from the REDF held to fund the loan program and was \$13.7 million and \$13.5 million as of September 30, 2021, and 2020, respectively.

Unrestricted - This amount is the portion of net position that does not meet the definition of restricted. As of September 30, 2021, and 2020, unrestricted funds totaled \$ 27.0 million and \$12.0 million, respectively.

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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• ***Revenues and Expenses***

DC Green Bank distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services in connection with the DC Green Bank's ongoing operations. The principal operating revenues of DC Green Bank consist of interest on program loans receivable and program fees. Operating expenses include salaries and benefits, information technology costs, web development and design costs, professional, contractual, loan servicing, and other miscellaneous expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, which primarily consist of investment interest and income.

• ***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 contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions may also affect the reported amounts of revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2 CASH DEPOSITS

DC Green Bank maintains cash and cash equivalents balances at several financial institutions. The cash balance at each financial institution is insured under the Federal Deposit Insurance Corporation (FDIC) up to \$250 thousand. At times, the balances on deposit will exceed the balance insured by the FDIC. DC Green Bank has sweep investment accounts that are Insured Cash Sweep (ICS) and is a repurchase sweep investment in accordance with the District Financial Institutions and Deposit Act of 1997. Cash equivalents are subject to interest rate risk which is the risk that changes in interest rates will adversely affect the value of the investment. As of September 30, 2021, and 2020, the bank balances of cash deposits and cash equivalent deposits were \$27.3 million and \$17.4 million, respectively.

NOTE 3 INVESTMENTS

DC Green Bank uses its securities portfolio to provide a source of liquidity and risk management and provide an appropriate return on funds invested. The Banks investment portfolio totaled \$5.0 million as of September 30, 2021. There were no investments as of September 30, 2020.

As of September 30, 2021, DC Green Bank's investments had the following maturities:

Investment Type	Fair Value			
	June 30, 2021	0-18 Months	18-24 Months	> 24 Months
U.S. Treasury Bonds	\$ 4,690,772	\$ 4,690,772	\$ -	\$ -
Money Market Funds	306,078	306,078	-	-
Total investments	\$ 4,996,850	\$ 4,996,850	\$ -	\$ -

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 3 INVESTMENTS (continued)

As of September 30, 2021, DC Green Bank's investments had the following balances:

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bonds	\$ 4,690,772	\$ 4,690,772	\$ -	\$ -
Money Market Funds	306,078	306,078	-	-
Total Investments by Fair Value Level	\$ 4,996,850	\$ 4,996,850	\$ -	\$ -

Interest rate risk. In accordance with its investment policy for its operating funds, the DC Green Bank manages its exposure to declines in fair value due to rising interest rates by limiting the maturity of securities to no more than 12 months from the date of purchase, unless it is matched to a specific cash flow requirement.

Credit risk. DC Green Bank's investments in U.S. Treasury Securities are rated AA+ by Standard and Poor's.

Concentration of credit risk. DC Green Bank's policy is to diversify its investments by security type and institution. With the exception of the U.S. Treasury Securities and authorized pools, no more than 50% of the City's total investments portfolio will be invested in a single security type or with a single financial institution.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, DC Green Bank's deposits may not be returned to it. As of September 30, 2021, all of the DC Green Bank's deposits were either covered by federal depository insurance or were covered by collateral held by the bank's agent in the DC Green Bank's name and DC Green Bank's was in compliance with the collateralization level required by its investment policy.

NOTE 4 PROGRAM LOANS RECEIVABLE

DC Green Bank has issued construction loans for sustainable projects and programs to promote energy efficiency improvements, clean energy installations, and the construction of green infrastructure. Program loans receivable are funded by DC Green Bank as expenditures are incurred by the borrower. As of September 30, 2021, and 2020, DC Green Bank has committed \$2.6 million and \$1.8 million to the borrowers, respectively. Actual draws on program loans totaled \$2.0 million and \$1.5 million as of September 30, 2021, and 2020, respectively. Loans have various maturity dates between October 2021 and April 2023.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 4 PROGRAM LOANS RECEIVABLE (continued)

Program loans receivable consisted of the following as of September 30, 2021, and 2020:

	<u>2021</u>	<u>2020</u>
Construction Loans	\$ 1,568,466	\$ 1,462,460
Pre-Development Loans	211,759	-
Revolving Loans	175,892	-
Total Program Loans Receivable	<u>\$ 1,956,117</u>	<u>\$ 1,462,460</u>

NOTE 5 RELATED-PARTY TRANSACTIONS

For fiscal years 2021 and 2020, DC Green Bank received the majority of its funding from the District of Columbia. During the years ended September 30, 2021, and 2020, approximately 99% of DC Green Bank's funding was from the District of Columbia.

NOTE 6 RISK MANAGEMENT

DC Green Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; cyber threats and natural disasters. DC Green Bank maintains commercial insurance coverage for property, liability, errors and omissions, Directors and Officers, and employee accidents. There have been no losses for fiscal years 2021 and 2020.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Commitments

As of September 30, 2021, and 2020, DC Green Bank has total unused commitments of \$818 thousand and \$321 thousand, respectively, relating to the undrawn funds in the portfolio. Based on the progression of the projects DC Green Bank is expecting more drawdowns in early fiscal year 2022.

Contingencies

In April of 2021, DC Green Bank entered into a credit enhancement with Amalgamated Bank on behalf of a borrower as a condition of permanent financing on Flywheel's DCGB-backed 2020 Solar For All portfolio. DCGB provided a loan guaranty of \$300 thousand secured by a pledge account at Amalgamated Bank to back the first year of debt service that the borrower owes to Amalgamated Bank (the "Loan Guaranty"). The Loan Guaranty will be released after 12 months. In the event it is called upon, it will be extended on a day-for-day basis for the time during which it is in use.

In November 2020, DC Green Bank entered a contract with Sandy Spring Bank to establish a loan loss reserve to reimburse Sandy Spring Bank for program loans that have defaulted. The initial amount of the loan loss reserve required under the contract is \$100 thousand. Under the terms of the contract, the maximum loss reserve to be funded by DC Green Bank would be \$500 thousand, if necessary.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY

(A Component Unit of the Government of the District of Columbia)

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2021, AND 2020

NOTE 8 COVID-19 IMPACT

On August 10, 2021, the mayor announced that all DC Government employees will have until September 19, 2021, to meet the job requirement of being fully vaccinated. The Bank has adopted the mayor's mandate requiring all our employees to be vaccinated against COVID-19.

Since January 30, 2020, when the World Health Organization declared the coronavirus to be a public health emergency, the Bank has been complying with all the mandates issued by the Mayor of the District of Columbia.

While DC Green Bank does not have any residential and commercial sector lending currently, the immediate impact on its future investment in commercial and construction is unknown due to the uncertainty of how long the pandemic will last. The potential impacts may include a reduction in the monies received from the District from the REDF and SETF funds, and changes in the regulatory environments.

The COVID-19 health crisis has had and continues to have a material impact on the capitalization funds of DC Green Bank as of September 30, 2021, and 2020, respectively. In 2021, the REDF funds received by the Bank were reduced from \$7.0 million to \$3.0 million, with a shortfall of \$4.0 million. In 2020 the initial capitalization funding to DC Green Bank was impacted by a delay in receipt of \$1.0 million from the District's Sustainable Energy Trust Fund (SETF); \$7.0 million was subsequently received in fiscal 2021 and \$3.0 million is still outstanding.

During this unprecedented pandemic period, DC Green Bank has been an intentional partner working with other financial institutions, nonprofits, private companies, and government agencies to support struggling businesses and residents of DC. By providing economic incentives for continued clean economic development, DC Green Bank will support the economic recovery of the District.

DC Green Bank is working with its partners to mitigate the impact of these and other unforeseen disruptions to the operations of DC Green Bank.

NOTE 9 SUBSEQUENT EVENTS

On October 29, 2021, DC Green Bank received the outstanding capitalization funds of \$7.0 million from the SETF funds which were included in due from District of Columbia on the accompanying statements of net position as of September 30, 2021.

On November 15, 2021, the Bank closed on a predevelopment facility in the amount of \$1.85 million for a 125-unit affordable housing green building preservation retrofit in Ward 1. The Bank is the sole financier at the project level. The pre-development costs include architecture, engineering, design, entitlement, legal, and other expenses before construction for the project. The Sponsors intend to design the PHIUS+ 2018 green building certification standard.

DISTRICT OF COLUMBIA GREEN FINANCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021, AND 2020

NOTE 9 **SUBSEQUENT EVENTS** (continued)

On October 1, 2021, the District's Department of Energy and Environment (DOEE) made the full transition of the administration of the DC PACE program from DOEE to DC Green Bank. DC PACE, or Property Assessed Clean Energy, is a financing mechanism for commercial buildings in DC that uses the District's ability to fund capital improvements in the public interest by attaching unique tax assessments to properties to allow for longer-term payback periods to ensure that energy efficiency savings and cash flow increases can be used to repay the loans as well as contribute to achieving the District's climate and energy targets. DC Green Bank will add DC PACE to its growing list of financial offerings, delivering a comprehensive suite of options for District building owners and operators, community-based organizations, contractors, co-ops, homeowners and condo associations, developers, and residents to save money while also bringing down emissions and transitioning to a cleaner future

By statute, the administration of the DC PACE program was designed to transition from DOEE to DC Green Bank to consolidate the District's investments in a clean, equitable, and sustainable future under one entity.

DC Green Bank evaluated the subsequent events and transactions through December 15, 2021, the date these financial statements were available for issue, and has determined that no material subsequent events have occurred, other than that disclosed above, that would affect the information presented in the accompanying financial statements or require additional disclosure.



**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Mayor and Council of the Government of the District of Columbia
and the Board of Directors of the District of Columbia Green Finance Authority
Washington, DC

We have audited, 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, the financial statements of the District of Columbia Green Finance Authority (DC Green Bank or the Bank), a component unit of the Government of the District of Columbia, as of and for the years ended September 30, 2021, and 2020, and the related notes to the financial statements, which collectively comprise DC Green Bank's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Green Bank's internal controls over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DC Green Bank's internal controls. Accordingly, we do not express an opinion on the effectiveness of DC Green Bank's internal controls.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether DC Green Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Washington, D.C.
December 15, 2021

SB & Company, LLC