

MINUTES OF THE ONE HUNDREDTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON JUNE 16, 2008

Pursuant to notice dated June 5, 2008, a copy of which is annexed hereto, the one hundredth (100th) meeting of the Audit and Finance Committee of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY ("Authority") was convened at 12:30 p.m. on Monday, June 16, 2008, in the Authority's Albany office at 17 Columbia Circle, Albany, New York; by video conference in the Authority's New York City office at 485 Seventh Avenue, 10th floor, New York, New York; and by webcast.

The following members of the Committee were present:

Robert B. Catell
Vincent A. DeIorio, Esq., *ex officio*
George F. Akel, Jr.

Member Gottlieb did not attend. Also in attendance was Authority Member Parker D. Mathusa. In addition, Robert G. Callender, Acting President and CEO, and Vice President for Programs; Jeffrey J. Pitkin, Treasurer; Hal Brodie, Esq., General Counsel; Jacquelyn L. Jerry, Esq., Deputy Counsel and Secretary to the Audit and Finance Committee; Peter V. Mahar, Controller and Assistant Treasurer; Mark B. Mitchell, Director of Internal Audit; John Schiavone from Lumsden & McCormick, LLP; John V. Connorton, Jr., Esq., from Hawkins Delafield & Wood, LLP; and various other members of the staff of the Authority were present.

Mr. Catell called the meeting to order and noted the presence of a quorum. He indicated that the first item on the agenda concerned the approval of the minutes of the ninety-ninth meeting of the Committee held on April 14, 2008.

Mr. DeLorio indicated that he had one clarifying comment with respect to the minutes. He reiterated his compliments to staff on the formatting of the presentations on the assessment of progress and tax compliance, summarized in the minutes of the April meeting. He commented that the recommendations and responses to the recommendations reminded him of interrogatories in the courtroom. He said that the point he was making in his remarks is that the Authority should revisit the reports in April of next year for purposes of assessing Authority progress, using them as a blueprint for where it was and how far it had progressed.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the ninety-ninth meeting of the Committee held on April 14, 2008, were approved.

Mr. Catell indicated that the next item to be considered was the Annual Investment Report (“Investment Report”) of the Authority and the Investment Guidelines, Operative Policy and Instructions (June 2008) (“Investment Guidelines”). Mr. Pitkin explained that the Investment Guidelines set forth the policies and procedures for the investing, monitoring, and reporting of the Authority’s investments. The Members are required to review and approve the Authority’s investment policies, annually, pursuant to Public Authorities Law Section 2925. No changes are recommended to the Investment Guidelines that are currently in effect.

The Investment Report, which is also required to be approved annually, summarizes Authority investment activities and the results of those activities. The Investment Report indicates that the Authority’s overall investments increased from \$433.3 million to \$563.7 million. The increase is principally due to funds that were received for specific programs administered by the Authority, but that were not expended as of March 31, 2007. Mr. Pitkin summarized the various fund balances, including those in the Con Edison System-Wide Demand Management program; the system benefits charge (SBC) funded programs; and the Renewable Portfolio Standard (RPS).

The composition of the Authority's investments changed slightly from the prior year, but included a reduction in investments in federal government obligations with a corresponding increase in investments in certificates of deposit ("CDs") and repurchase agreements. These changes were made primarily to take advantage of more favorable interest rates available from the latter investments, and also based on the Authority's cash flow needs. Since market yields on longer-term federal government obligations decreased, there was no advantage associated with purchasing those instruments. Accordingly, there was a decrease in the weighted average term of investments from 21.0 months to 12.1 months.

As a result of generally lower market interest rates, but higher average balances available for investment, interest earnings for the fiscal year ended March 31, 2008 increased by \$3.3 million to about \$19.6 million. The rate of return on the Authority's investments was about 4.0%, compared to a return of 4.3% in the prior year.

In June 1994, the Members approved up to \$2 million in investments to be deposited with banks participating in the New York State Excelsior Linked Deposit Program ("Linked Deposit Program"). These deposits earn interest rates of 2%-3% less than the bank's normal rate for comparable CDs and the bank, in turn, gives comparably reduced interest rate loans to eligible projects, which the Members limited to energy-related businesses or projects. The Authority has approximately \$614,500 in investments under the Linked Deposit Program as of March 31, 2008, benefiting two companies with energy-related projects.

The Investment Report also summarizes a list of fees and charges related to investments. For the fiscal year ended March 31, 2008, these fees and charges included payments of approximately \$235,000 to the New York State Department of Taxation and Finance ("Tax and Finance"), the Authority's fiscal agent.

Lastly, the Investment Report includes a report from the independent auditors, Lumsden & McCormick, LLP, indicating that, in their opinion, the Authority has complied

with the New York State Comptroller's Investment Guidelines for Public Authorities and relevant sections of the New York State Public Authorities Law.

Mr. Catell stated that a resolution considering approval of the Investment Report and Investment Guidelines would be considered after the Committee members met in executive session with the independent auditors.

In response to an inquiry from Mr. DeLorio, Mr. Pitkin explained that Empire State Development has asked the Authority to consider increasing its deposits under the Linked Deposit Program. Staff will be contacting other public authorities to determine whether the Authority's support for the program is comparable to other public authorities and will report to the Committee members at the next meeting.

In response to inquiries from Mr. Catell, Mr. Pitkin explained that since March 2008, additional loans for energy-related projects have resulted in the Authority's deposit being fully committed. Mr. Pitkin said he would provide copies of the Linked Deposit Program's annual report to the Members. Mr. Catell said that this could serve as a marketing tool for Authority programs and successes.

Mr. Catell stated that the next discussion item concerned the Authority's financial statements. Peter Mahar, the Authority's Controller and Assistant Treasurer, explained that the Committee members are requested to recommend adoption of a resolution approving the Authority's annual audited financial statements for the fiscal year ended March 31, 2008. The independent auditors will issue an unqualified opinion on the financial statements.

On the Statement of Net Assets, cash and investments increased by about \$131.2 million dollars. This increase is primarily from excess collections over expenditures in the Con Edison System-Wide Demand Management, **New York Energy Smartsm**, and Renewable Portfolio Standard programs as of March 31, 2008.

Also affecting the financial statements was a March 2008 Public Service Commission Order extending the Con Edison System-Wide Demand Management program for another year, allowing the Authority to use \$21.8 million in uncommitted funds over the one-year extension and requiring the Authority to refund to Consolidated Edison Company of New York, Inc. (“Con Edison”) all other uncommitted funds plus interest. Accordingly, the liability labeled “Con Edison Refund Payable” in the amount of \$30.5 million represents the amount to be refunded to Con Edison. Included in Deferred Revenue is \$21.8 million, which will be recognized at the time the Authority commits Con Edison System-Wide Demand Management program funds during the one-year extension.

As previously discussed with the Committee, the Authority has implemented the Governmental Accounting Standards Board Statement No. 45, Accounting for Post-Employment Health Insurance Benefits. In an effort to use unrestricted financial resources for the future payment of post-employment health insurance benefits and to provide consistency within the Financial Statements, included in the resolution is the designation of \$2.8 million of Fund Balance in the Fund Balance Sheet to cover these costs. The designation is not a legal restriction, but merely a statement of the Authority’s intent to use unrestricted funds for the future payment of post-employment health care benefits.

Restricted Net Assets increased by about \$73 million, primarily due to program funds received but not yet expended, principally for the Con Edison System-Wide Demand Reduction, **New York Energy Smartsm**, and RPS programs.

The Unrestricted Net Assets balance of \$5.1 million is higher than budgeted, due, in part, to the timing of capital asset costs and from unanticipated revenue relating to Saratoga Technology + Energy Park easements. This balance is expected to be reduced during fiscal year 2008-09 when the planned capital asset additions are completed.

Included in the meeting packet are additional reports issued by the independent auditors under governmental auditing standards. One report indicates that the auditors found no instances of noncompliance or material weaknesses. Another report summarizes the auditors' responsibilities for auditing the financial statements and summarizes significant accounting policies, accounting estimates, and financial disclosures, which they found to be reasonable. This report also indicates there were no misstatements during the audit, there were no difficulties or disagreements encountered during the audit, and that management provided all necessary representations.

Lastly, the package includes a letter from the independent auditors, commonly referred to as a management letter. Management letters generally address control weaknesses and suggestions for improvement that are identified as part of the audit. This year's letter states that there are no deficiencies in the Authority's internal control structure, but that the Authority will soon need to address several emerging accounting standards, all of which the Authority is aware of and is working on so that they are implemented on a timely basis.

The management letter also states that Lumsden & McCormick has evaluated Management's response to the Report on Preliminary Assessment of Fraud Risk and Related Internal Control, which was presented to the Committee at the April 2008 meeting. The independent auditors support the actions planned. Lastly, there are no new comments or negative findings described in the management letter.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 334

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Members of the Audit and Finance Committee of the New York State Energy Research and Development Authority shall convene in executive session for the purpose of reviewing the financial condition of the Authority.

The Committee members then met with only the independent auditors in executive session.

Mr. Catell reconvened the meeting in open session. Mr. Catell announced that no formal action was taken during the executive session. He said that the Committee members had a complete and thorough discussion with the independent auditors and that the independent auditors stated that Authority staff was responsive to their requests for information.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 335

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee (attached as Exhibit A), approving and adopting the 2007-2008 Annual Investment Report and the Investment Guidelines, Operative Policy and Instructions (June 2008), substantially in the form submitted to the Committee (attached as Exhibit B).

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 336

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee (attached as Exhibit C), approving the Authority's Financial Statements as of March 31, 2008 (attached as Exhibit D).

Mr. Catell then said that the next agenda item concerned the appointment of independent auditors for fiscal year 2008-09. Mr. Pitkin explained that the Committee

members are asked to approve a resolution appointing Lumsden & McCormick, LLP, as the independent auditors of the Authority for the fiscal year ending March 31, 2009. The fees and expenses for the audit would not exceed \$40,176. Lumsden & McCormick was competitively selected in 2007 under a mini-bid of firms pre-qualified by the New York State Office of General Services (“OGS”) under a State contract for audit services. The Authority may renew the agreement annually for one-year extensions, through the fiscal year 2009-10 audit, with annual adjustments in the fees pursuant to escalation clauses in the underlying OGS contract.

Pursuant to the requirements of the Public Authority Accountability Act, Lumsden & McCormick will rotate their lead audit partner for next year’s audit and replace John Schiavone with another partner, Donna Ginzer, who has similar qualifications. At the Committee members’ request, staff spoke with some other State public authorities and found that most are not allowing the former audit partner to return as lead after the initial rotation. Staff concurs with this policy and recommends that Ms. Ginzer serve as lead audit partner for next year and possibly succeeding years.

A copy of the 2008-09 engagement letter from the independent auditors explaining their proposed services was provided to the Committee members. This engagement letter is consistent with the fiscal year 2007-08 engagement letter.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 337

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee (attached as Exhibit E), appointing Lumsden & McCormick LLP as the Authority’s independent auditors for fiscal year 2008-09.

Mr. Catell indicated that the next agenda item was the Annual Bond Sales Report (“Bond Sales Report”) and he called upon Mr. Pitkin to discuss this item. Mr. Pitkin explained that, in accordance with Public Authorities Law Section 2800, the Committee Members are asked to adopt a resolution approving the Bond Sales Report. The Bond Sales Report indicates that during the 2007-08 fiscal year, the Authority did not issue any bonds. As required, a schedule of bonds outstanding as of March 31, 2008, is included as part of the report.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 338

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee (attached as Exhibit F), adopting and approving for submission pursuant to Section 2800 of the Public Authorities Law, the Authority’s Annual Bond Sales Report for the fiscal year April 1, 2007 through March 31, 2008 (attached as Exhibit G).

Mr. Catell stated that the next item on the agenda was a report on the Authority’s financing program. Mr. Pitkin stated that, at the April meetings, the Members were updated on the status of the auction rate bond market. In connection with that market, New York State Electric & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation (“RG&E”) had asked the Authority to participate in converting certain series of bonds to fixed rate bonds, and converting other series of bonds to weekly rate bonds, with the addition of new letters of credit. Staff explained that these actions could be accomplished under the existing documents and did not need additional authorization from the Members.

At NYSEG’s and RG&E’s request, the Members were also asked to, and the Members did, authorize certain other actions. First, the Members authorized the amendment of bond documents to allow the removal of insurance, if deemed appropriate by the utility on whose

behalf the bonds were issued. This was requested because various insurance companies insuring Authority-issued bonds had been downgraded and this had resulted in the bonds bearing increased interest rates.

Through this same resolution, the Members authorized utilities to participate in auctions on their own behalf, consistent with recent guidance provided by the Internal Revenue Service and the Securities and Exchange Commission. In essence, the guidance would allow the utilities to purchase their own auction rate bonds in an auction, and still maintain the tax-exempt status of the bonds, if and when they were later remarketed. This authorization was intended to reduce interest rate costs on auction rate bonds, while the various other financing options are being analyzed.

Lastly, the Members adopted a second resolution allowing utilities to enter the market directly to purchase and hold or, in other words, “warehouse” their auction interest rate bonds. This would also allow the utilities to reduce their interest rate costs while they analyzed other possible options.

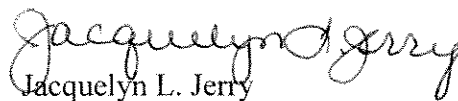
Since the April meetings, auction failures continue and most auction interest rate bonds continue to bear higher interest rates. In addition, various insurance companies continue to be downgraded by the rating agencies, resulting in increased interest rate costs. With respect to Authority action, staff have completed two conversions -- one on behalf of NYSE&G and one on behalf of RG&E. In these conversions, the bonds were converted from auction interest rates to fixed interest rates of 5.35% and 5.376%, respectively.

In addition, 3 additional conversions of NYSEG bonds from an auction interest rate to a weekly interest rate are scheduled for the second week of July. Due to the complexity of these 3 transactions, in conjunction with the number of other transactions under active review by the involved parties, the initially ambitious schedule has had to be postponed. Two of the 3 conversions will involve the removal of insurance.

Mr. Pitkin concluded this presentation by explaining that, to date, no utility has participated in its own auctions or warehoused its own bonds. Staff continue to be available to discuss possible courses of action with the various utilities.

Mr. Catell asked if there were any other matters the Committee members wished to discuss. There being none, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jacquelyn L. Jerry".

Jacquelyn L. Jerry
Secretary to the Committee

NOTICE OF MEETING AND AGENDA

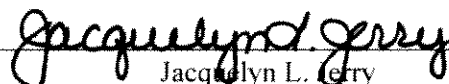
June 5, 2008

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundredth (100th) meeting of the AUDIT AND FINANCE COMMITTEE of the New York State Energy Research and Development Authority will be held in the Authority's Albany Office at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's New York City Office at 485 Seventh Avenue, 10th Floor, New York, New York, on Monday, June 16, 2008, commencing at 12:30 p.m., for the following purposes:

1. To consider the Minutes of the 99th meeting held on April 14, 2008.
2. To consider and act upon the Annual Investment Report of the Authority and the "Investment Guidelines, Operative Policy and Instructions (June 2008)".
3. To consider and act upon the Financial Statements of the Authority for FY 2007-08.
4. To consider and act upon a motion to enter into executive session for the purpose of reviewing the financial condition of the Authority.
5. To consider and act upon the appointment of the Authority's independent auditors for fiscal year 2008-09.
6. To consider and act upon an annual bond sale report.
7. To receive a report on the financing program.
8. To transact such other business as may properly come before the meeting.

Members of the public may attend the meeting at either of the above locations. The meeting is also available through webcast at <http://www.nyserdera.org/governancemeetings.asp>.



Jacquelyn L. Jerry

Secretary to the Audit and Finance Committee

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