Lumsden & McCormick, LLP
Certified Public Accountants

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 20, 2011

Members of the Audit and Finance Committee
New York State Energy Research and Development Authority
Albany, New York

We have audited the financial statements of the governmental activities and each major fund of the New York State Energy Research and Development Authority (the Authority) for the year ended March 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and government auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accrual of program expenditures
- Collectability of accounts receivable
- Reflecting investments at fair market value
- Capitalization of fixed assets at historical or estimated historical cost within established threshold values.
- Depreciable lives and methods
- Accrual of compensated absences (vacation and sick pay liabilities)

Management's process for determining the above estimates is based on firm concepts and reasonable assumptions of future events. We evaluated these key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are reflected in Note 10 – Contingencies and Note 11 – Postemployment Healthcare Benefits.
We evaluated the above disclosures in relation to the financial statements as a whole and determined that they are reasonable.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We discovered no such misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 20, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the use of the Audit and Finance Committee, Members of the Authority, and management. It is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

(A Component Unit of the State of New York)

Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Compliance
with New York State Internal Control Act

Independent Accountants' Report on Compliance with Section 2925(3)(f)
of the New York State Public Authorities Law

MARCH 31, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities and each major fund of New York State Energy Research and Development Authority (the Authority) (a component unit of the State of New York) as of and for the year ended March 31, 2011, and have issued our report thereon dated June 20, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control 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 control such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control 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 control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the Members and management of the Authority and the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

June 20, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH NEW YORK STATE INTERNAL CONTROL ACT

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

We have audited the financial statements of New York State Energy Research and Development Authority (the Authority) (a component unit of the State of New York) as of and for the year ended March 31, 2011, and have issued are report thereon dated June 20, 2011. 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.

Compliance with the *New York State Government Accountability, Audit and Internal Control Act* (the Act) is the responsibility of the management of the Authority. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with the Act. However, our objective was not to provide an opinion on overall compliance with such provisions. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members and management of the Authority and certain New York State Departments and Agencies. It is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

June 20, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

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

We have examined New York State Energy Research and Development Authority's (the Authority) (a component unit of the State of New York) compliance with Section 2925(3)(f) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended March 31, 2011. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended March 31, 2011.

This report is intended solely for the information and use of the Members and management of the Authority and certain New York State Departments and Agencies. It is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

June 20, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

MANAGEMENT LETTER

June 20, 2011

Members of the Authority and Management
New York State Energy Research and Development Authority
Albany, New York

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the New York State Energy Research and Development Authority (the Authority) (a component unit of the State of New York), as of and for the year ended March 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements would not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended solely for the information and use of Members and management of the Authority. It is not intended to be, and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

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