KPMG LLP
515 Broadway
Albany, NY 12207-2974

June 25, 2012

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

Ladies and Gentlemen:

We have audited the financial statements of the New York State Energy Research and Development Authority (the Authority) as of March 31, 2012 and the year then ended, and expect to issue our report thereon under date of June 25, 2012. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of Members of the Authority are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or Members of the Authority of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of Members of the Authority in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

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Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the Authority are described in Note 2 to the financial statements. As described in Note 2 (i), in order to comply with the requirements of the Governmental Accounting Standards Board, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Unusual Transactions

We noted no transactions entered into by the Authority during the year that were both significant and unusual, and that, under professional standards, we are required to communicate to you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

We evaluated management's estimates, including possible management bias in developing the estimates, and determined that they were reasonable in relation to the financial statements taken as a whole.

Uncorrected and Corrected Misstatements

There were no corrected or uncorrected financial statement misstatements identified during the audit of the Authority's March 31, 2012 financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting, and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' reports on the Authority's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended March 31, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters with management and those charged with governance as the Authority's auditors. During 2012, we presented to the Members of the Authority and management a formal audit plan.

Material Written Communications

Our professional standards and other regulatory requirements specify that you receive copies of all material written communications between the auditor and management. Material written communications between management and KPMG include:

1 Engagement letter; and

2 Management representation letter

Significant Difficulties Encountered During the Audit

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

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and the Authority and persons in a financial reporting oversight role at the Authority and provide confirmation that we are independent accountants with respect to the Authority.

Confirmation of Audit Independence

We hereby confirm that as of June 25, 2012 we are independent accountants with respect to the Authority under all other relevant professional and regulatory standards.

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

Very truly yours,

KPMG LLP

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Independent Auditors' 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*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New York State Energy Research and Development Authority (Authority), a component unit of the State of New York, as of and for the year ended March 31, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 25, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 opinion 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 over financial reporting 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 over financial reporting, 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.

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.

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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 of the Authority and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 25, 2012

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Independent Accountants' Report on Investment Compliance

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

We have examined the New York State Energy Research and Development Authority's (Authority) compliance with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules, and Regulations of the State of New York* during the year ended March 31, 2012. 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, 2012.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Authority's compliance with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules, and Regulations of the State of New York* and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Authority complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under *Government Auditing Standards.*

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

KPMG LLP

June 25, 2012

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June 25, 2012

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

Ladies and Gentlemen:

We have audited the financial statements of the New York State Energy Research and Development Authority (the Authority) as of and for the year ended March 31, 2012, and will issue our report thereon dated June 25, 2012. In planning and performing our audit of the financial statements of the New York State Energy Research and Development Authority, 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 opinion 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.

The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant

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deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

Very truly yours,

KPMG LLP