MINUTES OF THE ONE HUNDRED FORTIETH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON JUNE 26, 2019

Pursuant to a notice and agenda dated June 18, 2019, a copy of which is annexed hereto, the one hundred fortieth (140th) meeting of the Audit and Finance Committee (the "Committee") of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (the "Authority") was convened at 10:30 a.m. on Wednesday, June 26, 2019, at the Authority's Albany Office at 17 Columbia Circle, Albany, New York and the Authority's New York City Office located at 1359 Broadway, 19th Floor, New York, New York. The two locations were connected by videoconference.

The following members of the Committee were present:

Jay Koh (by videoconference in New York City)
Sherburne Abbott
Kate Fish
Ken Daly

Also present were Alicia Barton, President and CEO; Janet Joseph, Senior Vice President for Strategy and Market Development; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, General Counsel; Sara L. LeCain, Senior Counsel and Secretary to the Committee; Martin Dunbar and Elizabeth Clague, KPMG, LLP; and various other staff of the Authority.

Mr. Koh called the meeting to order and noted the presence of a quorum. The meeting notice and agenda were forwarded to the Committee members on June 18, 2019 and the press on June 19, 2019.

Mr. Koh indicated that the first item on the agenda concerned the approval of the minutes of the one hundred thirty-ninth (139th) meeting of the Committee, held on April 30, 2019.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the hundred thirty-ninth (139th) meeting of the Committee, held on April 30, 2019 were approved.

Mr. Koh indicated that the next item on the agenda was the Annual Investment Report and the Investment Guidelines, Operative Policy and Instructions ("Investment Guidelines). This item was presented by the Authority's Treasurer, Jeff Pitkin. Mr. Pitkin stated that pursuant to requirements of the Public Authorities Law, the Members are requested to approve the Annual Investment Report and the Investment Guidelines.

With respect to the Annual Investment Report, Mr. Pitkin stated that the amount of the Authority's total investments increased $212 million from $604.6 million to $816 million as of March 31, 2019, on a fair market value basis. Much of the increase was due to an increase of about $80 million for NY Green Bank ("NYGB") for its funded capitalization resulting from additional committed capital not yet deployed. Regional Greenhouse Gas Initiative ("RGGI") investments increased about $59 million primarily from NYGB capital redeemed to provide funding for the Authority's statewide energy storage initiative. The increase in Clean Energy Standard ("CES") funding was principally due to collections of bid and contract security deposits. The changes in other investments were primarily the result of receipts versus the expenditure of funds. The Investment Report summarizes the composition of the investment portfolio as compared to the prior year by investment type and term.

Mr. Pitkin continued, stating that investment income increased from $7.6 million in fiscal year 2017-18 to $16.6 million for fiscal year 2018-19 primarily due to higher average yields and higher investment balances as compared to the prior year. The average annual rate of return was 2.3% for fiscal year 2018-19 and 1.0% for fiscal year 2017-2018. The Authority's independent auditors have issued a report stating that nothing came to their attention to indicate that the Authority was not in compliance with the provisions of the Investment Guidelines.

Lastly, Mr. Pitkin stated that management did not recommend any changes to the Investment Guidelines.

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

Resolution No. ____

RESOLVED, that the "Investment Guidelines, Operative Policy and Instructions (June 2019)," as presented at this June 26, 2019 meeting are hereby recommended for approval by the Board; and

BE IT FURTHER RESOLVED, that the Authority's "2018-2019 Annual Investment Report," for the year ended March 31, 2019, as presented at this June 26, 2019 meeting, is hereby recommended for approval by the Board to be adopted as the annual investment report of the Authority required by Section 2800 and Section 2925(6) of the Public Authorities Law.

Mr. Koh indicated that the next item on the agenda was the Annual Investment Report for the NYSERDA OPEB Trust ("OPEB Investment Report") and the Investment Policy Statement for the NYSERDA OPEB Trust ("Investment Policy Statement"). Mr. Pitkin reported that pursuant to the Investment Policy Statement, the Members are requested to adopt a resolution approving the OPEB Investment Report for the year ended March 31, 2019 and to adopt a resolution approving the Investment Policy Statement.

Mr. Pitkin indicated that the OPEB Investment Report summarizes contributions, investment income, benefit payment, and administrative expenses for the fiscal year ended March 31, 2019 and reports the balance of investments in total and by asset category in comparison to the target levels established in the Investment Policy Statement. The market value of the Trust's investments as of March 31, 2019 providing improved Morningstar ratings and historical performance, and also had no fossil fuel interests.

Mr. Pitkin explained that the targeted long-term expected return of the NYSERDA OPEB Trust is estimated at 6.5% per year. The NYSERDA OPEB Trust has earned a 5.8% average annual return since its inception. In aggregate, the weighted average 5-year return of the current trust investments have outperformed the asset class 5-year benchmark indices with the exception of the fund previously noted. As of March 31, 2019, the weighted average fossil fuel interest of investments was 1.67%, well below the 6.30% of fund investments prior to the change in the Investment Policy Statement in June 2018.

No changes were recommended for the Investment Policy Statement.

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

Resolution No. ____

> RESOLVED, that the "NYSERDA OPEB Trust Investment Report" for the year ended March 31, 2019, as presented at this June 26, 2019 meeting is hereby recommended for approval by the Board as the annual investment report of the NYSERDA OPEB Trust required by Section 2800 and Section 2925(6) of the Public Authorities Law; and
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> BE IT FURTHER RESOLVED, that the "Policy Statement for the NYSERDA OPEB Trust (Retiree Health Insurance Benefits Trust)" as presented at this June 26, 2019 meeting, is hereby recommended for approval by the Board.

Mr. Koh indicated that the next item on the agenda concerned the Financial Statements of the Authority and NYGB for fiscal year 2018-2019. Peter Mahar, the Authority's Controller and Assistant Treasurer presented this item.

Mr. Mahar stated that the Members are requested to adopt a resolution approving the annual audited financial statements for the fiscal year ended March 31, 2019 for the Authority and separate stand-alone financial statements for NYGB. Both financial statements include an unmodified, clean opinion from the independent auditors, KPMG, LLP ("KPMG"). The materials that were provided to the Members included a detailed explanation of the financial statements.

Mr. Mahar noted that there have been several significant changes and fluctuations. During the year Governmental Accounting Standards Board Statement Number 75 (Financial Reporting for Postemployment Benefits Other than Pensions) ("GASB 75"). GASB 75 requires the Authority record its unfunded actuarially determined liability at March 31, 2019. The impact of this adoption had a cumulative effect of $2.9 million on the beginning net position balance at April 1, 2018. The unfunded NYSERDA OPEB Trust liability at March 31, 2019 was $3.9 million.

With regard to significant Balance Sheet fluctuations, Mr. Mahar indicated that cash and investments increased from the prior year by $185.6 million primarily due to an increase in NYGB's funded capitalization, resulting from additional committed capital not yet deployed and from scheduled and early redemptions of loans and financing receivables. CES cash and investments increased from collections of bid and contract security deposits. Balances of other funds largely changed as a result of transfers or from differences in the timing of receipts versus the expenditure of funds.

Mr. Mahar continued, explaining that other assets decreased by $20.0 million principally due to a decrease in Accounts Receivable for the Zero Emission Credit ("ZEC") monthly installment payments resulting form lower than anticipated generation by the nuclear facilities, from reductions in NYS receivables from reimbursement expenses billed under certain NYS grants, offset in part by an increase in NYGB net loan activity. Total liabilities increased by $33.3 million, accrued liabilities increased by $17.9 million primarily due to the accrual of ZEC program payments due to nuclear generating facilities but not paid at year end, and deposits increased by $14.3 million due to the receipt of additional CES contract and security deposits.

Mr. Mahar noted that Restricted Net Position, which is the cumulative difference between revenues and expenses, increased by $130.4 million to $977.6 million primarily from the additional capitalization of NYGB. Unrestricted Net Position increased from $3.5 million to $4.1 million, $637,000 higher than the Budget, primarily from lower than anticipated capital asset purchases. Regarding the significant income statement fluctuations in the Budget:

- State appropriation revenues were less than budgeted by $5.3 million principally due to lower than anticipated expenses for the Western New York Nuclear Service Center and Cleaner Greener Communities Program funded by State appropriations;
- Utility surcharge assessment revenues were less than budgeted by $267 million due to lower than anticipated spending for Clean Energy Fund ("CEF") and NY-Sun programs;

- ZEC Assessments were less than budget by $32.8 million primarily due to lower production by the nuclear generating facilities than anticipated;
- RGGI Allowance auction proceeds were less than budget by $5.7 million principally due to lower clearing prices for allowances sold than had been estimated;
- Salaries and benefit expenses were $2.6 million lower than budgeted primarily from pension and NYSERSDA OPEB Trust expenses being much less than anticipated in the Budget due to updated actuarial valuations, partially offset by differences between estimated and actual staffing vacancy levels;
- Program expenditures were less than budgeted by $266.1 million primarily due to timing of expenditures for the CEF, Renewable Portfolio Standard, Energy Efficiency Portfolio Standard, RGGI and CES programs being lower than anticipated in the Budget as a result of delays in launching new initiatives, market participation, lower than anticipated production by the generating facilities, and general timing of expenditures;
- Program operating costs were less than budgeted primarily due to lower NYGB Professional and Consulting spending for legal, financial, and technical services than what was anticipated in the Budget; and
- General and administrative costs were less than budgeted; the most significant variance was Computer and Software, which is primarily due to the timing of software and hardware purchases and from lower web-hosting spending than anticipated in the Budget.

Mr. Mahar explained that the meeting materials included a separate stand-alone financial statement for NYGB. The two most significant changes on the Balance Sheet were the increase in cash and investments of $79.8 million and the $41 million increase in loans and financing receivables. The increase in cash and investments was primarily an increase in its funded capitalization resulting from additional capital not yet deployed, from scheduled and early redemptions of loans and financing receivables, offset in part by the capital redemption of $52.9 million to provide funding for the statewide energy storage initiative. The increase in loans and financing receivables increased slightly due to net loan activity.

Mr. Mahar noted that management continues to use a specific identification method for asset impairment which KPMG had reviewed during the course of the audit, they were satisfied with the Authority's methodology and the amount recorded. During the fiscal year ended March 31, 2019, the Authority recorded a $388,000 provision for losses for the balance of a loan and financing receivables for which a partial impairment adjustment was recorded in the prior year. All other portfolio loans and financing receivables are current on obligations or have been assessed that the carrying value was supported by the discounted cash flows of project pledged revenues. Operating revenues were $2.2 million lower than budgeted, primarily resulting from lower than anticipated deployed capital balances and the provision for losses, partially offset by higher than anticipated financing fees. Operating expenses were $948,000 less than budgeted primarily due to lower than anticipated professional and consulting and temporary staffing costs. NYGB ended the year with an operating income of $9.8 million.

Mr. Mahar indicated that non-operating investment income was $6 million higher than budgeted due to higher investment balances and from greater than expected yields. Non-operating expenses of $1.4 million were incurred during the year for third party capital expansion advisory costs partially offset by lower than expected non-operating program evaluation expenses. As a result, the Net Income for NYGB for the year was $15.3 million, $4.7 million higher than budget. This was the third consecutive year of revenues in excess of expenses, and $22.8 million on a cumulative basis.

Mr. Mahar concluded his report by stating that the meeting packet included some additional reports issued by KPMG under governmental auditing standards. KPMG disclosed no instances of noncompliance or material weaknesses, found reasonable management's estimates and financial disclosures, noted no uncorrected misstatements in the financial statements, noted no disagreements with management, and offered no management letter comments to address control weaknesses or suggestions for improvement.

Following Mr. Mahar's presentation, Mr. Koh stated that the Committee would consider a resolution recommending approval of the financial statements after they had met in executive session with the independent auditors. Mr. Koh then called for a motion to enter into executive session to discuss the Authority's financial condition.

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

Resolution No. ___

> 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 on June 26, 2019 for the purpose of reviewing the financial condition of the Authority.

Mr. Koh asked everyone but the Committee Members and the auditors to leave the room during the Executive Session.

Following the Executive Session, Mr. Koh reconvened the meeting in open session. He stated that no formal action was taken during the Executive Session. He then called for a motion recommending the adoption of the Financial Statements of the Authority and NYGB.

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

Resolution No. ____

> RESOLVED, that the Authority's Financial Statements and the Financial Statements of NY Green Bank as of March 31, 2019, as presented at this June 26, 2019 meeting is hereby recommended for approval by the Board as the financial reports required by Sections 1867(1) and 2800 of the Public Authorities Law.

Mr. Koh indicated that the next item on the agenda was the appointment of KPMG as the Authority's independent auditors for fiscal year 2019-2020. Mr. Pitkin stated that the Members are requested to approve a resolution appointing KPMG as the independent auditors of the Authority for the fiscal year ending March 31, 2020. KPMG will perform a financial statement audit and deliver an opinion with regard to the Authority's consolidated financial statements, and separate stand-alone financial statements for NYGB. The firm's fees and expenses for these services will not exceed $116,050. The Authority competitively selected KPMG through

Request for Proposal ("RFP") in 2016. This will be for year four out of five years under that RFP.

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

Resolution No.___

RESOLVED, the Audit and Finance Committee recommends approval of a resolution authorizing the President and CEO to retain the firm of KPMG, LLP as independent auditors for the Authority and for NY Green Bank for the fiscal year ending March 31, 2020.

Mr. Koh indicated that the next item on the agenda was the approval of the Annual Bond Sales Report. Mr. Pitkin explained that pursuant to requirements of the Public Authorities Law, the Members are requested to adopt a resolution approving submission of the Annual Bond Sales. The Annual Bond Sales Report indicates that during the year, the Authority completed one new issuance. The schedule of Authority bonds outstanding provides a detailed listing of the Authority's bonds issued and outstanding as of March 31, 2019, totaling approximately $1.7 billion.

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

Resolution No. ___

RESOLVED, that the Authority's Annual Bond Sales Report for the fiscal year April 1, 2018 through March 31, 2019, and the information contained therein, as presented at this June 26, 2019 meeting is hereby recommended for approval by the Board for submission pursuant to Section 2800 of the Public Authorities Law.

Mr. Koh indicated that the next item on the agenda was a report on the Authority's tax reporting and compliance activities. Mr. Mahar discussed a report issued by Lumsden & McCormick, LLP reviewing the Authority's compliance with relevant Federal and State tax reporting and compliance obligations pursuant to the requirements of the Authority's Internal Control Manual.

Mr. Mahar stated that the report found that the Authority complied with relevant requirements. However, the report included three observations and recommendations for improving upon the reporting and compliance requirements, which management has agreed to implement. The three observations and recommendations noted in the report were:

1. Handling of withholdings and allowances for one non-resident alien employee was found to not comply with limits on the amount of allowances which may be claimed by an employee. Finance is adding this review to their onboarding checklist for any future non-resident alien employees.

2. The report noted exceptions for sales tax charges on certain travel reimbursement items with a recommendation that the Authority consider filing a return to claim a refund of taxes paid. Given that these generally involve de minimis amounts, management feels that the cost of retroactively identifying and filing a return would outweigh the refund amount.

3. A review of a sample of "meeting" expense reimbursements noted that a description of the meeting attendees should be provided in accordance with IRS regulations to maintain an accountable plan for employee expense reimbursements. An email will be sent to remind staff of this requirement and a review of expense submittals by Finance staff will be enhanced to ensure that documentation is provided when required.

Mr. Koh indicated that the next item on the agenda was other business.

Whereafter, upon motion duly made and seconded, and by voice vote of the Members present, the meeting was adjourned.

Respectfully submitted,

Sara L. LeCain

Sara L. LeCain

Secretary to the Committee