

NEW YORK STATE
ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

FY 2012-13 ANNUAL INVESTMENT REPORT

A. EXPLANATION OF INVESTMENT GUIDELINES

Public Authorities Law Section 2925 provides that the investment guidelines of a public authority shall set forth, among other things:

- a detailed list of permitted investments;
- what types of investments shall be secured with collateral and to what extent;
- what types of investments shall be made pursuant to written contracts;
- how collateral shall be valued and monitored;
- standards for diversifying types of investments and for qualifying and diversifying firms with which business is transacted;
- requirements for Board verification of matters relating to investments;
- provisions for annual independent audit of all investments; and
- provisions for preparing and filing quarterly and annual investment reports.

The Guidelines explicitly require the Board to determine whether results are consistent with objectives, to review the independent audit of investments, to review the program for consistency with statutory requirements, and to verify collateral semi-annually (at least once on an unscheduled basis). The Guidelines permit delegation of these functions through the Audit and Finance Committee to the Authority's independent auditors.

The Guidelines provide that, where practicable, the Members shall review and approve at the June meeting an annual investment report and the investment guidelines.

B. AMENDMENTS

The Investment Guidelines were last approved by the Members in June 2012. No amendments to the Investment Guidelines were made during the year.

C. INVESTMENT GUIDELINES, OPERATIVE POLICY AND INSTRUCTION

Following is the Investments Guidelines, Operative Policy and Instruction as of June 2012.

INVESTMENT GUIDELINES, OPERATIVE POLICY AND INSTRUCTIONS (June 2012)

I. Introduction

These guidelines set forth the policy of the New York State Energy Research and Development Authority (hereafter "the Authority") and instructions to its officers and staff with regard to its investments and the monitoring and reporting of these investments. The guidelines are intended to meet or exceed the provisions of Public Authorities Law (hereafter, "PAL") Section 2925, the Office of the State Comptroller's Investment Guidelines for Public Authorities contained in 2 NYCRR Part 201, Section 201.3, and the provisions of the Authority's enabling legislation concerning Authority investments. In accordance with PAL Section 2925, the guidelines will be reviewed, revised, if necessary, and approved as frequently as necessary and appropriate, but not less frequently than annually, in the manner described hereafter.

The provisions of these guidelines apply to all monies for which the Authority is responsible for directing investment. This includes monies to which the Authority has legal title and which are held by the Commissioner of Taxation and Finance as fiscal agent of the Authority (PAL Section 1859(1)). It also includes monies to which the Authority does not have legal title, but for which it is responsible for directing investment such as monies held by the trustee for the State Service Contract Revenue (West Valley) Bonds.

The Authority conducts a Private Activity Bond Financing Program. Pursuant to this program, tax-exempt non-recourse securities are issued by the Authority, and the proceeds are made available to State utilities and other non-State entities to finance eligible projects. These securities do not constitute a debt of or charge against the credit of the Authority or the State. Rather, the utility or other entity for which the securities are issued is liable for payment of the principal, redemption premium, if any, and interest on the securities. The proceeds of each issuance are deposited with a trustee chosen by the participating utility or other entity, and are not available for investment by the Authority. Generally, the Indenture of Trust for the transaction will contain a list of securities in which the Trustee may invest these monies. The list of permitted investments is approved by the Commissioner of Taxation and Finance as part of the Commissioner's review pursuant to the enabling legislation of the Authority. Investments are made at the direction of the participating utility or other entity, and not at the direction of the Authority. Accordingly, the provisions of these Investment Guidelines do not apply to the investing of these monies. Nonetheless, when participating in the formulation of these financing transactions, staff are directed to pursue the objectives set forth in the Investment Guidelines and to require that prudent provisions as to permitted investments, collateral requirements and investment monitoring be included in the underlying documents, as appropriate.

II. Definitions

"Broker-Dealer" means any government bond trader approved by the Commissioner of Taxation and Finance reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York.

"Custodian" means the Commissioner of Taxation and Finance, or a bank, trust company or national banking association designated or approved to hold securities on behalf of or for the benefit of the Authority, as trustee or otherwise.

"Eligible Banking Institution" means any bank, trust company, or national banking association approved by the Commissioner of Taxation and Finance doing business through offices located within New York State. For the State of New York's Excelsior Linked Deposit Program only, Eligible Banking Institution shall also include savings and loan institutions.

"Federal Governmental Obligations" means obligations of the United States and obligations the principal and interest of which are unconditionally guaranteed by the United States.

"Repurchase Agreement" means a written contract whereby the Authority purchases securities, and the seller of the securities agrees to repurchase the securities at a future date for a specified price. Repurchase Agreements may be used to purchase only Federal Government Obligations. The Authority may enter into a Repurchase Agreement only with an Eligible Banking Institution or a Broker-Dealer.

"Money market funds" means shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, registered under the Federal Securities Act of 1933.

III. Investment Objectives

The investment objectives of the Authority, listed in order of importance, are as follows: to conform with all applicable Federal, State and other legal requirements; to adequately safeguard investment principal; to earn reasonable rates of return; and to provide for portfolio liquidity. These investment objectives will likely be achieved through substantial reliance on Federal Governmental Obligations and minimal investment in long-term securities.

IV. Delegation of Authority

The responsibility for implementing the investment program is delegated to the Authority's Treasurer. All investment transactions shall be approved and authorized by the Treasurer or, in his/her absence the Controller and Assistant Treasurer, or any Officer of the Authority. Such authorized investment transactions shall be initiated and executed by the Commissioner of Taxation and Finance (or his/her authorized designees), the Authority's fiscal agent established pursuant to Section 1859 of the Public Authorities Law. The Treasurer shall establish written procedures for the operation of the investment program consistent with these Investment Guidelines. Such procedures shall include an internal control structure to provide a reasonable level of accountability over the authorization, recording and reporting of investment transactions, and to provide for a segregation of duties between authorization and accounting functions.

Investments shall be made in accordance with the Authority's Investment Guidelines, Operative Policy and Instructions using the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the objectives set forth herein. All Authority staff participating in the investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Authority's ability to effectively fulfill its responsibilities. All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

V. Types of Investments Authorized

The Authority may deposit monies in demand deposit (checking) and time deposit (savings) accounts with Eligible Banking Institutions located in New York State. Monies deposited in such accounts shall be fully secured as soon as practicable by Federal Deposit Insurance Corporation (FDIC) insurance or obligations of New York State or Federal Government Obligations, subject to approval of the Commissioner of Taxation and Finance, the Authority's fiscal agent, in consultation with the Authority.

Investments shall be limited to the following types of securities:

- (1) Federal Governmental Obligations, provided that the term of each shall not exceed five (5) years;

(2) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State, provided that the term of each shall not exceed five (5) years;

(3) certificates of deposit of Eligible Banking Institutions located in New York, provided that: the term of each shall not exceed five (5) years; pursuant to the limitations of a resolution adopted by the Members in June 1994, the Authority may invest in certificates of deposits through the State of New York's Excelsior Linked Deposit Program, whereby the Authority's deposit will earn a fixed rate of interest equal to 2% to 3% less than the institution's published certificate of deposit rate consistent with this program's criteria; and subject to all other provisions outlined in these Guidelines.

(4) Repurchase Agreements, provided that the term of each shall not exceed sixty (60) days and that no more than 40 percent of the Authority's total investments shall be invested in Repurchase Agreements at the time of purchase; and

(5) Money market funds whose investments are limited to the authorized investments described above and whose objective is to maintain a constant share value of \$1.00, provided that: (a) no more than 5 percent of the total amount of the Authority's investments shall be invested in money market funds for more than thirty consecutive business days; and (b) no more than 10 percent of the total amount of the Authority's investments shall be invested in money market funds at any time.

Nothing herein contained shall preclude the Authority from imposing further restrictions on the investing of funds in any Indenture of Trust relating to the issuance of bonds.

VI. Authorized Financial Institutions and Dealers

Eligible Banking Institutions and Broker-Dealers authorized for the Authority's investment purposes shall be approved based upon policies and procedures established by the Commissioner of Taxation and Finance. The Authority will periodically consult with the Department of Taxation and Finance concerning their policies, practices and the resulting list.

VII. Diversity of Investments

To the extent practical, the Authority shall diversify its investments by financial institution, by investment instrument, and by maturity. The cash flow requirements of the Authority will be a significant determining factor in selecting the term of investment securities. Competitive quotations, pursuant to policies established by the Commissioner of Taxation and Finance and executed by his/her designated staff, shall be used to select the institution from which investments are purchased.

Except as otherwise required by any policies and practices of the Commissioner of Taxation and Finance, the Authority shall not invest more than 35 percent of its total investment portfolio with a single Eligible Banking Institution.

VIII. Collateral and Delivery of Securities

Collateral for investments shall be limited to: (i) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State; and (ii) Federal Governmental Obligations. The Authority shall not accept a pledge of a proportionate interest in a pool of collateral. Collateral shall be segregated in the name of the Authority, and shall be in the custody of the Authority or a third party Custodian pursuant to a written custodial agreement; provided, that if the Custodian is the Commissioner of Taxation and Finance, a written custodial agreement shall not be required. The written custodial agreement shall specify circumstances, if any, under which collateral may be substituted, and shall provide that the Custodian holds the collateral solely for the benefit of the Authority and makes no claim

thereto. The market value of collateral and accrued interest, if any, shall equal or exceed the value of the secured investment and accrued interest, if any, at all times. Collateral shall be marked to market at the time of the initial investment and, thereafter, no less frequently than monthly using the bid or closing price as quoted in The Wall Street Journal.

In addition to collateral permitted for investments, collateral for deposits made with banks participating in the State's Excelsior Linked Deposit Program shall, subject to the discretion of the Commissioner of Taxation and Finance with confirmation to the Authority, include obligations permitted under Section 105 of the State Finance Law.

Certificates of deposit, demand deposits and time deposits shall be fully collateralized for amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

Securities purchased through a Repurchase Agreement shall be marked to market at least monthly.

Collateral shall not be required with respect to the purchase of obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, or money market funds.

Under any Repurchase Agreement, payment shall be made by or on behalf of the Authority to the seller upon the seller's delivery of obligations of the United States to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the obligations of the United States are credited to the Custodian's Federal Reserve Bank account. Payment shall be made by or on behalf of the Authority for obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, certificates of deposit, and other purchased securities upon the delivery thereof to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the purchased securities are credited to the Custodian's Federal Reserve System account.

IX. Written Contracts

The Authority has determined that, with the exception of Repurchase Agreements, written contracts are not a regular business practice for the types of securities (obligations of New York State, Federal Governmental Obligations, etc.) in which Authority monies may be invested. The interests of the Authority will be adequately protected by conditioning payment by or on behalf of the Authority on the physical delivery of purchased securities to the Authority or its Custodian, or, in the case of book-entry transactions, on the crediting of purchased securities to the Custodian's Federal Reserve System account. In addition, all purchases will be confirmed in writing to the Authority.

Only an Eligible Banking Institution or a Broker-Dealer shall be qualified to enter into a Repurchase Agreement with the Authority's fiscal agent. The Authority's fiscal agent shall enter into a Master Repurchase Agreement, patterned after the Bond Market Association (formerly Public Security Association) model master repurchase agreement, with each Eligible Banking Institution or Broker-Dealer with which the fiscal agent enters into a specific Repurchase Agreement. The Master Repurchase Agreement shall include:

- (a) a description of the relationship of the parties as purchaser and seller;
- (b) a description of the events of default which would permit the purchaser to liquidate the pledged collateral;
- (c) procedures which ensure that the Authority obtains a perfected security interest in the underlying securities; and
- (d) the method of computing margin maintenance requirements, including a limitation, based on

policies established by the Commissioner of Taxation and Finance, that securities purchased and held as collateral for repurchase agreements shall be Federal Government Obligations maturing in twelve years or less, and provided that: (i) if such collateral has a maturity of seven years or less, the market value must equal or exceed 101% of the par value of the repurchase agreement; and (ii.) if such collateral has a maturity greater than seven years, the market value must equal or exceed 102% of the par value of the repurchase agreement.

X. Qualification of Custodians

The following shall be qualified to act as Custodian: the Commissioner of Taxation and Finance, any bank or trust company chartered by the State of New York which is not a member of the Federal Reserve System, or any bank, trust company, or national banking association which is a member of the Federal Reserve System, including an Eligible Banking Institution, which transacts business through offices located within the State of New York. During the time that any bank or trust company serves as Custodian, it must be rated at least "A", or its equivalent, by a nationally recognized independent rating agency. With respect to the holding of securities purchased by the Authority through a Repurchase Agreement, the Custodian may not be the Eligible Banking Institution with which the Authority or its fiscal agent has entered into such Repurchase Agreement, nor an agent of such Eligible Banking Institution for purposes of the Repurchase Agreement.

XI. Audit and Finance Committee

The functions of the Audit and Finance Committee with respect to investments are to:

- (a) monitor the system of internal controls;
- (b) verify relevant matters relating to securities purchased or held as collateral semi-annually and on an unscheduled basis;
- (c) determine whether the investment results are consistent with the investment objectives set forth in these Investment Guidelines;
- (d) review any independent audits of the investment program;
- (e) review these Investment Guidelines periodically and recommend to the Members of the Authority such amendments thereto as may be necessary or appropriate; and
- (f) evaluate systematically and periodically the investment program consistency with the provisions of PAL Section 2925, these Investment Guidelines, and the Office of the State Comptroller's Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3).

In support of its functions, the Audit and Finance Committee shall:

- (a) require the Authority's independent auditors to verify semi-annually, and at least once annually on an unscheduled basis, that the provisions of these Investment Guidelines relating to the delivery and possession of and payment for securities, and custodial possession and periodic valuation of collateral are being met;
- (b) review the quarterly, annual, and any other periodic investment reports, and recommend to the Members of the Authority such changes in the annual investment report as it deems necessary or appropriate;
- (c) review the written annual audit report of the independent auditors;

(d) discuss with the independent auditors, with staff and officers not present, the results of the annual independent audit and the written annual audit report; and

(e) review not less frequently than annually these Investment Guidelines, and recommend to the Members of the Authority such changes in these Investment Guidelines as it deems necessary or appropriate.

XII. Operations and Procedures

The Treasurer, or in his/her absence the Controller and Assistant Treasurer or any Authority Officer, shall authorize the purchase and sale of all securities, authorize the disbursement of funds for delivery of securities, determine the selection of brokers, dealers and Custodians, and execute contracts for Repurchase Agreements and custodial services on behalf of the Authority. The process of initiating, reviewing and approving requests to purchase and sell securities shall be documented and retained for audit purposes. Oral directions concerning the purchase or sale of securities shall be confirmed in writing. The Authority shall pay for purchased securities upon the delivery or book-entry thereof, and the Authority will obtain written confirmation of each delivery or book-entry. Custodians must have prior authorization from the Authority to deliver securities and collateral, and shall not deliver securities except upon receipt of funds. Custodians shall confirm in writing all such transactions. Custodians shall report whenever activity has occurred in a custodial account of the Authority.

The Treasurer shall develop a detailed investment procedures implementing the Investment Guidelines as part of the Accounting Policy and Procedures Manual which shall include, but not be limited to, the following:

- (a) the establishment and maintenance of a system of internal controls for investments;
- (b) methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;
- (c) a data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and
- (d) requirements for periodic reporting and a satisfactory level of accountability.

Except in the purchase of government securities at their initial auction, the Authority will encourage investment selections utilizing competitive quotations based upon the procedures established by the Commissioner of Taxation and Finance and carried out by his/her designated personnel.

The Treasurer shall maintain a record of investments. The record shall identify each security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and Custodian of the collateral.

At least monthly, the Authority shall verify the principal amount and market values of all investments and collateral. The Authority shall obtain appropriate listings from Custodians and compare such listings against the records of the Authority.

XIII. Audit

At the time the independent auditors to the Authority conduct the annual audit of the accounts and

financial affairs of the Authority, the independent auditors shall audit the investments of the Authority for the subject fiscal year. The annual investment audit shall determine whether:

- (a) the Authority's investment practices and operations have been consistent with the provisions of PAL Section 2925, these Investment Guidelines, the Office of the Comptroller's Investment Guidelines for Public Authorities, and the Authority's investment operating procedures contained in its Accounting Policies and Procedures Manual;
- (b) adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's investment assets; and
- (c) a system of adequate internal controls for investments is maintained.

The independent auditors shall prepare a written annual audit report which presents the results of their annual investment audit, and shall include:

- (a) a description of the scope and objectives of the audit;
- (b) a statement that the audit was made in accordance with generally accepted government auditing standards;
- (c) a description of any material weaknesses found in the internal investment controls;
- (d) a description of all non-compliance with provisions of PAL Section 2925, these Investment Guidelines, the Office of the State Comptroller's Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3), or the Authority's investment operating procedures contained in its Accounting Policies and Procedures Manual;
- (e) a statement of positive assurance of compliance on the items tested; and
- (f) a statement of any other material deficiency or finding identified during the audit not covered in (e) above.

XIV. Reporting

Within sixty (60) days of the end of each of the first three quarters of the Authority's fiscal year, the Treasurer shall prepare and submit to the Members of the Authority and to the Audit and Finance Committee of the Authority a quarterly investment report which indicates new investments, the inventory of existing investments, the selection of Custodians and Broker-Dealers, and such other matters as the Treasurer deems appropriate.

Within 120 days of the end of the fiscal year, the Treasurer shall prepare and submit to the Audit and Finance Committee an annual investment report, which shall include the Investment Guidelines, including any amendment to the Investment Guidelines since the last annual investment report; an explanation of the Investment Guidelines and amendments; the results of the annual independent audit; the investment income record; a list of total fees, commissions or other charges paid to each Broker-Dealer and Custodian; and such other matters as the Treasurer deems appropriate.

The Members of the Authority shall review and approve the annual investment report, if practicable, at the June meeting of the Authority, for submission thereof to the Division of the Budget, the Department of Audit and Control, the Senate Finance Committee, and the Assembly Ways and Means Committee.

The Authority's annual financial statements shall report the Authority's investments and provide such

disclosure information as is required by applicable governmental accounting standards.

Not less frequently than annually, and if practicable, at the June meeting of the Authority, the Members of the Authority shall review, amend, if necessary or appropriate, and approve these Investment Guidelines.

The provisions of these Investment Guidelines and any amendments hereto shall take effect prospectively and shall not invalidate the prior selection of any Custodian, Broker-Dealer, any prior investment, nor any list of permitted investments set forth in any indenture of trust or similar document previously executed by the Authority.

D. INVESTMENT SUMMARY AS OF MARCH 31, 2013

Following is summary and detail of the Authority's investments as of March 31, 2013

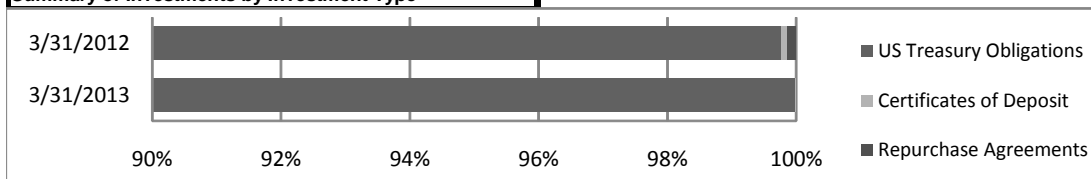
NYSERDA
Investment Report Summary
As of March 31, 2013

Summary of Investments by Fund

Fund	3/31/2013		3/31/2012		Increase/ Decrease
	Amortized Cost	Market Value	Amortized Cost	Market Value	
Clean Air Interstate Rule (CAIR)	\$ 19,615,822	19,718,231	22,016,435		(2,400,613)
Con Edison System-Wide Demand Reduction	13,464,315	13,577,745	23,148,137		(9,683,822)
Energy Efficiency Portfolio Standard	12,190,015	12,213,026	239,001,345		(226,811,330)
Energy Efficiency Services	18,478,116	18,503,704	22,356,445		(3,878,329)
Green Jobs Green New York	64,465,775	64,557,222	96,259,986		(31,794,211)
Low Level Radioactive Waste Account	4,138,927	4,138,651	3,095,902		1,043,025
New York Energy \$mart (SBCIII)	193,469,715	194,816,236	194,582,912		(1,113,197)
Perpetual Care Funds	28,531,759	28,618,548	28,416,164		115,595
Regional Greenhouse Gas Initiative (RGGI)	180,672,366	180,953,059	121,190,221		59,482,145
Renewable Portfolio Standard	352,259,870	353,380,032	244,029,402		108,230,468
Research & Development / Operating	37,122,631	37,201,499	23,821,533		13,301,098
Technology and Market Development	157,000,971	157,727,540	-		157,000,971
Total Investments	1,081,410,282	1,085,405,493	1,017,918,482		63,491,800

Analysis: The large increase in T&MD and decrease in EEPS investments was primarily due to transfers pursuant to Public Service Commission Order. Additionally, increases in T&MD and RPS investments resulted from scheduled collections not yet expended, as well as RGGI auction proceeds collected but not yet expended. These increases were partially offset by: a further reduction in EEPS funds due to a deferral of EEPS2 collections previously approved by the Commission to better match expenditures and collections; decrease in GJGNY funds for program expenditures; and decrease in Con Edison Demand Reduction Program funds as the program winds down, as well as to a scheduled refund payment that was made to Con Edison during the first quarter.

Summary of Investments by Investment Type



	3/31/2013	3/31/2012
US Treasury Obligations	\$ 1,081,274,281	\$ 1,015,569,816
Certificates of Deposit	136,000	948,661
Repurchase Agreements	-	1,400,005
Total	\$ 1,081,410,281	\$ 1,017,918,482

Weighted average term of investments	36.4 months	35.4 months
Weighted average time to maturity	22.4 months	22.2 months

Analysis: Allocation shift to US Treasury Obligations was made to take advantage of more attractive yields, which led to increase in average term of investments. The prior year's investments in Repurchase Agreements were made principally to cover near term expenditure requirements.

Income

Fund	Year Ended	
	3/31/2013	3/31/2012
New York Energy \$mart (SBCIII)	\$ 2,995,442	\$ 4,094,122
Energy Efficiency Portfolio Standard	2,141,171	2,549,494
Technology and Market Development	329,622	-
Renewable Portfolio Standard	2,746,789	2,752,947
Research & Development / Operating	183,626	184,723
Energy Efficiency Services	96,529	103,309
Con Edison System-Wide Demand Reduction	137,896	179,484
Regional Greenhouse Gas Initiative (RGGI)	1,015,489	844,717
Green Jobs Green New York	503,488	514,427
Clean Air Interstate Rule (CAIR)	337,716	341,247
Low Level Radioactive Waste Account	2,811	2,184
Perpetual Care Funds	115,660	101,080
Total	\$ 10,606,239	11,667,734

* ConEdison System-Wide Demand Reduction Program interest earnings are refunded to ConEdison.

Investment Yield	1.0%	1.2%
Weighted Average Yield of Current Investments	0.7%	0.9%

Analysis: The investment yield was higher than the average yield of current investments for both periods primarily due to gains realized on the sale of investments to meet cash flow needs. The slight reduction in average yield of current investments reflects changes in overall market interest rates.

NYSERDA Investments

03/31/13

<u>Fund</u>	<u>Investment Type</u>	<u>Bank</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Principal</u>	<u>Yield</u>	<u>Amortized Cost</u>	<u>Market Value</u>
CAIR	US Treasury Strip		06/15/12	05/15/13	6,856,741	6,870,000	0.21%	6,868,214	6,868,970
CAIR	US Treasury Strip		02/10/10	11/15/13	9,003,567	9,640,000	1.82%	9,533,928	9,632,192
CAIR	US Treasury Strip		02/15/12	02/15/14	3,203,055	3,222,000	0.30%	3,213,681	3,217,070
CAIR Total					19,063,363			19,615,822	19,718,231
ConEd SW	US Treasury Strip		05/11/11	05/15/14	12,323,919	12,703,500	1.01%	12,562,020	12,674,790
ConEd SW	US Treasury Strip		10/31/12	05/15/14	901,299	905,000	0.27%	902,295	902,955
ConEd SW Total					13,225,218			13,464,315	13,577,745
EEPS	US Treasury Strip		02/15/13	02/15/16	12,183,652	12,342,000	0.43%	12,190,015	12,213,026
EEPS Total					12,183,652			12,190,015	12,213,026
GJGNY (Mac28)	US Treasury Strip		05/16/11	08/15/13	22,899,621	23,221,000	0.62%	23,167,437	23,210,318
GJGNY (Mac28)	US Treasury Strip		09/23/11	08/15/14	17,608,702	17,774,000	0.32%	17,695,495	17,714,457
GJGNY (Mac28)	US Treasury Strip		08/15/11	08/15/14	13,440,635	13,597,000	0.39%	13,525,380	13,551,450
GJGNY (Mac28)	US Treasury Strip		01/09/13	02/15/16	999,320	1,012,000	0.41%	1,000,227	1,001,089
GJGNY (Mac28) Total					54,948,277			55,388,539	55,477,315
GJLLR (Mac30)	US Treasury Strip		01/10/13	05/15/14	4,499,592	4,512,000	0.20%	4,501,618	4,501,803
GJLLR (Mac30)	US Treasury Strip		01/10/13	02/15/16	4,571,631	4,628,000	0.40%	4,575,618	4,578,104
GJLLR (Mac30) Total					9,071,223			9,077,236	9,079,907
LLRW	US Treasury Bill		01/10/13	04/11/13	2,138,700	2,139,000	0.06%	2,138,964	2,138,712
LLRW	US Treasury Bill		03/20/13	04/11/13	1,999,926	2,000,000	0.06%	1,999,963	1,999,940
LLRW Total					4,138,626			4,138,927	4,138,651
Perpetual Care	US Treasury Strip		08/16/12	08/15/15	28,453,935	28,829,000	0.44%	28,531,759	28,618,548
Perpetual Care Total					28,453,935			28,531,759	28,618,548
R&D	US Treasury Bill		03/27/13	04/04/13	18,599,959	18,600,000	0.01%	18,599,979	18,599,974
R&D	Certificate of Deposit	M & T Trust	09/13/12	09/13/13	120,000	120,000	0.00%	120,000	120,000
R&D	Certificate of Deposit	M & T Trust	11/01/12	11/01/13	16,000	16,000	0.00%	16,000	16,000
R&D	US Treasury Strip		02/10/10	11/15/13	1,354,271	1,450,000	1.82%	1,434,045	1,448,826
R&D	US Treasury Strip		05/11/11	05/15/14	2,688,785	2,771,600	1.01%	2,740,732	2,765,336
R&D	US Treasury Strip		05/11/11	05/15/14	1,664,253	1,715,000	1.00%	1,696,085	1,711,124
R&D	US Treasury Strip		11/25/11	08/15/14	2,232,653	2,255,000	0.37%	2,243,714	2,248,145
R&D	US Treasury Strip		11/17/11	11/15/14	2,099,446	2,126,000	0.42%	2,111,582	2,117,411
R&D	US Treasury Strip		06/28/12	02/15/15	2,572,388	2,600,000	0.41%	2,580,310	2,587,000
R&D	US Treasury Strip		06/28/12	05/15/15	2,568,020	2,600,000	0.43%	2,576,418	2,583,750
R&D	US Treasury Strip		11/15/12	11/15/15	2,999,902	3,031,000	0.34%	3,003,764	3,003,933
R&D Total					36,915,677			37,122,631	37,201,499
Restricted	US Treasury Bill		10/17/12	04/11/13	6,983,043	6,988,000	0.15%	6,987,690	6,983,255

Restricted	US Treasury Bill	11/29/12	05/30/13	489,665	490,000	0.14%	489,890	489,725
Restricted	US Treasury Bill	12/13/12	06/13/13	2,012,875	2,014,000	0.11%	2,013,543	2,013,091
Restricted	US Treasury Bill	02/07/13	08/08/13	257,862	258,000	0.11%	257,902	257,879
Restricted	US Treasury Bill	09/20/12	09/19/13	319,433	320,000	0.18%	319,732	319,543
Restricted	US Treasury Bill	09/20/12	09/19/13	516,085	517,000	0.18%	516,567	516,261
Restricted	US Treasury Bill	09/20/12	09/19/13	2,645,308	2,650,000	0.18%	2,647,783	2,646,214
Restricted	US Treasury Bill	11/15/12	10/17/13	386,395	387,000	0.17%	386,640	386,544
Restricted	US Treasury Bill	11/15/12	10/17/13	901,588	903,000	0.17%	902,160	901,937
Restricted	US Treasury Bill	11/15/12	10/17/13	267,581	268,000	0.17%	267,751	267,685
Restricted	US Treasury Strip	05/11/11	05/15/14	3,618,548	3,730,000	1.01%	3,688,459	3,721,570
Restricted Total				18,398,384			18,478,116	18,503,704
RGGI	US Treasury Strip	06/15/12	05/15/13	14,464,030	14,492,000	0.21%	14,488,232	14,489,826
RGGI	US Treasury Strip	06/22/11	08/15/13	4,837,285	4,879,000	0.40%	4,871,720	4,876,713
RGGI	US Treasury Strip	12/23/11	11/15/14	16,407,026	16,610,000	0.43%	16,496,043	16,542,896
RGGI	US Treasury Strip	02/15/12	02/15/15	14,399,467	14,581,000	0.42%	14,467,376	14,508,532
RGGI	US Treasury Strip	03/23/12	05/15/15	17,167,850	17,500,000	0.61%	17,275,770	17,390,625
RGGI	US Treasury Strip	06/22/12	08/15/15	15,951,414	16,194,000	0.48%	16,010,952	16,074,812
RGGI	US Treasury Strip	09/20/12	08/15/15	17,978,664	18,161,000	0.35%	18,011,722	18,028,425
RGGI	US Treasury Strip	11/15/12	11/15/15	25,999,480	26,269,000	0.34%	26,032,955	26,034,418
RGGI	US Treasury Strip	12/19/12	02/15/16	14,199,126	14,393,000	0.43%	14,216,277	14,237,825
RGGI	US Treasury Strip	03/27/13	05/15/16	38,799,628	39,284,000	0.40%	38,801,320	38,768,987
RGGI Total				180,203,969			180,672,366	180,953,059
RPS	US Treasury Strip	07/31/09	08/15/13	10,857,710	11,890,000	2.26%	11,794,184	11,884,427
RPS	US Treasury Strip	07/02/09	11/15/13	6,086,636	6,770,000	2.45%	6,672,010	6,764,516
RPS	US Treasury Strip	05/11/11	05/15/14	13,536,957	13,953,900	1.01%	13,798,494	13,922,364
RPS	US Treasury Strip	05/04/11	05/15/14	39,999,401	41,317,000	1.07%	40,829,000	41,223,624
RPS	US Treasury Strip	08/01/11	08/15/14	2,284,495	2,330,000	0.65%	2,309,420	2,322,195
RPS	US Treasury Strip	08/02/11	08/15/14	1,280,054	1,303,000	0.59%	1,292,613	1,298,635
RPS	US Treasury Strip	11/01/11	11/15/14	6,303,237	6,386,000	0.43%	6,341,711	6,360,201
RPS	US Treasury Strip	11/02/11	11/15/14	9,597,368	9,716,000	0.41%	9,652,458	9,676,747
RPS	US Treasury Strip	11/10/11	11/15/14	1,558,733	1,578,000	0.41%	1,567,605	1,571,625
RPS	US Treasury Strip	02/08/12	02/15/15	21,194,352	21,429,000	0.36%	21,283,063	21,321,855
RPS	US Treasury Strip	02/01/12	02/15/15	11,157,419	11,265,000	0.32%	11,198,513	11,208,675
RPS	US Treasury Strip	05/02/12	05/15/15	437,352	443,000	0.42%	439,049	440,231
RPS	US Treasury Strip	05/02/12	05/15/15	49,362,500	50,000,000	0.42%	49,554,095	49,687,500
RPS	US Treasury Strip	08/01/12	08/15/15	25,499,908	25,745,000	0.32%	25,553,390	25,557,062
RPS	US Treasury Strip	08/02/12	08/15/15	23,699,760	23,929,000	0.32%	23,749,622	23,754,318
RPS	US Treasury Strip	10/31/12	11/15/15	7,199,537	7,292,000	0.42%	7,212,116	7,226,882
RPS	US Treasury Strip	11/02/12	11/15/15	23,699,705	23,998,000	0.41%	23,739,819	23,783,698

RPS	US Treasury Strip	11/07/12	11/15/15	15,699,899	15,875,000	0.37%	15,722,759	15,733,236
RPS	US Treasury Strip	02/15/13	02/15/16	16,557,802	16,773,000	0.43%	16,566,450	16,597,722
RPS	US Treasury Strip	02/15/13	02/15/16	3,124,393	3,165,000	0.43%	3,126,025	3,130,877
RPS	US Treasury Strip	02/15/13	02/15/16	17,769	18,000	0.43%	17,778	17,812
RPS	US Treasury Strip	01/09/13	02/15/16	2,299,818	2,329,000	0.41%	2,301,906	2,303,890
RPS	US Treasury Strip	02/06/13	05/15/16	49,265,500	50,000,000	0.45%	49,298,103	49,344,500
RPS	US Treasury Strip	02/06/13	05/15/16	8,234,236	8,357,000	0.45%	8,239,685	8,247,440
RPS Total				348,954,542			352,259,870	353,380,032
SBCIII	US Treasury Strip	07/31/09	11/15/13	18,061,600	20,000,000	2.39%	19,716,905	19,983,800
SBCIII	US Treasury Strip	11/21/12	11/15/13	806,416	808,000	0.20%	806,990	807,346
SBCIII	US Treasury Strip	07/31/09	11/15/13	21,186,177	23,435,000	2.37%	23,106,569	23,416,018
SBCIII	US Treasury Strip	07/01/09	11/15/13	17,425,062	19,475,000	2.56%	19,181,235	19,459,225
SBCIII	US Treasury Strip	07/01/09	11/15/13	4,160,541	4,650,000	2.56%	4,579,859	4,646,234
SBCIII	US Treasury Strip	05/11/11	05/15/14	35,209,185	36,300,000	1.02%	35,893,424	36,217,962
SBCIII	US Treasury Strip	02/01/12	02/15/15	29,313,358	29,596,000	0.32%	29,421,322	29,448,020
SBCIII	US Treasury Strip	08/01/12	08/15/15	7,029,213	7,100,000	0.33%	7,044,660	7,048,170
SBCIII	US Treasury Strip	08/01/12	08/15/15	6,778,845	6,844,000	0.32%	6,793,063	6,794,039
SBCIII	US Treasury Strip	02/15/13	02/15/16	26,999,100	27,350,000	0.43%	27,013,200	27,064,193
SBCIII	US Treasury Strip	02/06/13	05/15/16	19,899,321	20,196,000	0.45%	19,912,490	19,931,230
SBCIII Total				186,868,818			193,469,715	194,816,236
SBCIV	US Treasury Strip	07/31/09	08/15/13	20,353,222	22,290,000	2.26%	22,110,231	22,279,552
SBCIV	US Treasury Strip	05/04/11	05/15/14	20,150,739	20,810,000	1.07%	20,565,829	20,762,969
SBCIV	US Treasury Strip	05/04/11	05/15/14	19,365,000	20,000,000	1.07%	19,764,815	19,954,800
SBCIV	US Treasury Strip	08/01/11	08/15/14	3,564,008	3,635,000	0.65%	3,602,894	3,622,823
SBCIV	US Treasury Strip	08/02/11	08/15/14	1,587,542	1,616,000	0.59%	1,603,118	1,610,586
SBCIV	US Treasury Strip	11/01/11	11/15/14	1,723,372	1,746,000	0.43%	1,733,891	1,738,946
SBCIV	US Treasury Strip	02/01/12	02/15/15	23,097,294	23,320,000	0.32%	23,182,364	23,203,400
SBCIV	US Treasury Strip	05/02/12	05/15/15	3,242,129	3,284,000	0.42%	3,254,713	3,263,475
SBCIV	US Treasury Strip	04/03/12	05/15/15	8,781,494	8,940,000	0.57%	8,831,959	8,884,125
SBCIV	US Treasury Strip	08/22/12	08/15/15	1,999,327	2,024,000	0.41%	2,004,339	2,009,225
SBCIV	US Treasury Strip	07/05/12	08/15/15	5,647,527	5,724,000	0.43%	5,665,636	5,681,871
SBCIV	US Treasury Strip	07/18/12	08/15/15	2,311,908	2,338,000	0.37%	2,317,856	2,320,792
SBCIV	US Treasury Strip	11/15/12	11/15/15	7,002,411	7,075,000	0.34%	7,011,426	7,011,820
SBCIV	US Treasury Strip	10/31/12	11/15/15	12,799,616	12,964,000	0.42%	12,821,979	12,848,231
SBCIV	US Treasury Strip	10/03/12	11/15/15	13,499,644	13,640,000	0.33%	13,521,721	13,518,195
SBCIV	US Treasury Strip	01/09/13	02/15/16	8,999,969	9,115,000	0.41%	9,008,200	9,016,729
SBCIV Total				154,125,203			157,000,971	157,727,540
Grand Total				1,066,550,886			1,081,410,281	1,085,405,494

E. AUDITOR'S REPORT ON COMPLIANCE WITH INVESTMENT GUIDELINES

As part of the annual audit of the financial statements of the Authority, the independent auditors audited the Authority's investments and its compliance with its Investment Guidelines for the fiscal year ended March 31, 2013. Following is the report issued by the independent auditors.



KPMG LLP
515 Broadway
Albany, NY 12207-2974

**Report on Investment Compliance with Section 201.3 of
Title Two of the Official Compilation of Codes, Rules,
and Regulations of the State of New York**

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 (the Authority) compliance with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules, and Regulations of the State of New York* for the year ended March 31, 2013. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion 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.

In our opinion, the Authority complied, in all material respects, with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules, and Regulations of the State of New York* for the year ended March 31, 2013.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on 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 other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. 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 opinions. 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, the New York State Office of the State Comptroller, the New York State Division of the Budget, and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

Albany, New York
June 17, 2013

F. LIST OF FEES AND CHARGES RELATED TO INVESTMENTS

Operating Fund

NYS Department of Taxation and Finance - fiscal agent fees and expenses \$279,807

Total Fees and Charges \$279,807

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
INVESTMENT GUIDELINES, OPERATIVE POLICY AND INSTRUCTIONS

(June 2013)

INVESTMENT GUIDELINES, OPERATIVE POLICY AND INSTRUCTIONS
(June 2013)

I. Introduction

These guidelines set forth the policy of the New York State Energy Research and Development Authority (hereafter "the Authority") and instructions to its officers and staff with regard to its investments and the monitoring and reporting of these investments. The guidelines are intended to meet or exceed the provisions of Public Authorities Law (hereafter, "PAL") Section 2925, the Office of the State Comptroller's Investment Guidelines for Public Authorities contained in 2 NYCRR Part 201, Section 201.3, and the provisions of the Authority's enabling legislation concerning Authority investments. In accordance with PAL Section 2925, the guidelines will be reviewed, revised, if necessary, and approved as frequently as necessary and appropriate, but not less frequently than annually, in the manner described hereafter.

The provisions of these guidelines apply to all monies for which the Authority is responsible for directing investment. This includes monies to which the Authority has legal title and which are held by the Commissioner of Taxation and Finance as fiscal agent of the Authority (PAL Section 1859(1)). It also includes monies to which the Authority does not have legal title, but for which it is responsible for directing investment such as monies held by the trustee for the State Service Contract Revenue (West Valley) Bonds.

The Authority conducts a Private Activity Bond Financing Program. Pursuant to this program, tax-exempt non-recourse securities are issued by the Authority, and the proceeds are made available to State utilities and other non-State entities to finance eligible projects. These securities do not constitute a debt of or charge against the credit of the Authority or the State. Rather, the utility or other entity for which the securities are issued is liable for payment of the principal, redemption premium, if any, and interest on the securities. The proceeds of each issuance are deposited with a trustee chosen by the participating utility or other entity and are not available for investment by the Authority. Generally, the Indenture of Trust for the transaction will contain a list of securities in which the Trustee may invest these monies. The list of permitted investments is approved by the Commissioner of Taxation and Finance as part of the Commissioner's review pursuant to the enabling legislation of the Authority. Investments are made at the direction of the participating utility or other entity and not at the direction of the Authority. Accordingly, the provisions of these Investment Guidelines do not apply to the investing of these monies. Nonetheless, when participating in the formulation of these financing transactions, staff are directed to pursue the objectives set forth in the Investment Guidelines and to require that prudent provisions as to permitted investments, collateral requirements and investment monitoring be included in the underlying documents, as appropriate.

II. Definitions

"Broker-Dealer" means any government bond trader approved by the Commissioner of Taxation and Finance reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York.

"Custodian" means the Commissioner of Taxation and Finance, or a bank, trust company or national banking association designated or approved to hold securities on behalf of or for the benefit of the Authority, as trustee or otherwise.

"Eligible Banking Institution" means any bank, trust company, or national banking association approved by the Commissioner of Taxation and Finance doing business through offices located within New York State. For the State of New York's Excelsior Linked Deposit Program only, Eligible Banking Institution shall also include savings and loan institutions.

"Federal Governmental Obligations" means obligations of the United States and obligations the principal and interest of which are unconditionally guaranteed by the United States.

"Repurchase Agreement" means a written contract whereby the Authority purchases securities, and the seller of the securities agrees to repurchase the securities at a future date for a specified price. Repurchase Agreements may be used to purchase only Federal Government Obligations. The Authority may enter into a Repurchase Agreement only with an Eligible Banking Institution or a Broker-Dealer.

"Money market funds" means shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, registered under the Federal Securities Act of 1933.

III. Investment Objectives

The investment objectives of the Authority, listed in order of importance, are as follows: to conform with all applicable Federal, State and other legal requirements; to safeguard adequately investment principal; to earn reasonable rates of return; and to provide for portfolio liquidity. These investment objectives will likely be achieved through substantial reliance on Federal Governmental Obligations and minimal investment in long-term securities.

IV. Delegation of Authority

The responsibility for implementing the investment program is delegated to the Authority's Treasurer. All investment transactions shall be approved and authorized by the Treasurer or, in his/her absence the Controller and Assistant Treasurer, or any Officer of the Authority. Such authorized investment transactions shall be initiated and executed by the Commissioner of Taxation and Finance (or his/her authorized designees), the Authority's fiscal agent established pursuant to Section 1859 of the Public Authorities Law. The Treasurer shall establish written procedures for the operation of the investment program consistent with these Investment Guidelines. Such procedures shall include an internal control structure to provide a reasonable level of accountability over the authorization, recording and reporting of investment transactions, and to provide for a segregation of duties between authorization and accounting functions.

Investments shall be made in accordance with the Authority's Investment Guidelines, Operative Policy and Instructions using the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the objectives set forth herein. All Authority staff participating in the investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Authority's ability to effectively fulfill its responsibilities. All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

V. Types of Investments Authorized

The Authority may deposit monies in demand deposit (checking) and time deposit (savings) accounts with Eligible Banking Institutions located in New York State. Monies deposited in such accounts shall be fully secured as soon as practicable by Federal Deposit Insurance Corporation (FDIC) insurance or obligations of New York State or Federal Government Obligations, subject to approval of the Commissioner of Taxation and Finance, the Authority's fiscal agent, in consultation with the Authority.

Investments shall be limited to the following types of securities:

- (1) Federal Governmental Obligations, provided that the term of each shall not exceed five (5) years;
- (2) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State, provided that the term of each shall not exceed five (5) years;
- (3) certificates of deposit of Eligible Banking Institutions located in New York, provided that: the term of each shall not exceed five (5) years; pursuant to the limitations of a resolution adopted by the Members in June 1994, the Authority may invest in certificates of deposits through the State of New York's Excelsior Linked Deposit Program, whereby the Authority's deposit will earn a fixed rate of interest equal to 2% to 3% less than the institution's published certificate of deposit rate consistent with this program's criteria; and subject to all other provisions outlined in these Guidelines.
- (4) Repurchase Agreements, provided that the term of each shall not exceed sixty (60) days and that no more than 40 percent of the Authority's total investments shall be invested in Repurchase Agreements at the time of purchase; and
- (5) Money market funds whose investments are limited to the authorized investments described above and whose objective is to maintain a constant share value of \$1.00, provided that: (a) no more than 5 percent of the total amount of the Authority's investments shall be invested in money market funds for more than thirty consecutive business days; and (b) no more than 10 percent of the total amount of the Authority's investments shall be invested in money market funds at any time.

Nothing herein contained shall preclude the Authority from imposing further restrictions on the investing of funds in any Indenture of Trust relating to the issuance of bonds.

VI. Authorized Financial Institutions and Dealers

Eligible Banking Institutions and Broker-Dealers authorized for the Authority's investment purposes shall be approved based upon policies and procedures established by the Commissioner of Taxation and Finance. The Authority will periodically consult with the Department of Taxation and Finance concerning their policies, practices and the resulting list.

VII. Diversity of Investments

To the extent practical, the Authority shall diversify its investments by financial institution, by investment instrument, and by maturity. The cash flow requirements of the Authority will be a significant determining factor in selecting the term of investment securities. Competitive quotations, pursuant to policies established by the Commissioner of Taxation and Finance and executed by his/her designated staff, shall be used to select the institution from which investments are purchased.

Except as otherwise required by any policies and practices of the Commissioner of Taxation and Finance, the Authority shall not invest more than 35 percent of its total investment portfolio with a single Eligible Banking Institution.

VIII. Collateral and Delivery of Securities

Collateral for investments shall be limited to: (i) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State; and (ii) Federal Governmental Obligations. The Authority shall not accept a pledge of a proportionate interest in a pool of collateral. Collateral shall be segregated in the name of the Authority, and shall be in the custody of the Authority or a third party Custodian pursuant to a written custodial agreement; provided, that if the Custodian is the

Commissioner of Taxation and Finance, a written custodial agreement shall not be required. The written custodial agreement shall specify circumstances, if any, under which collateral may be substituted, and shall provide that the Custodian holds the collateral solely for the benefit of the Authority and makes no claim thereto. The market value of collateral and accrued interest, if any, shall equal or exceed the value of the secured investment and accrued interest, if any, at all times. Collateral shall be marked to market at the time of the initial investment and, thereafter, no less frequently than monthly using the bid or closing price as quoted in The Wall Street Journal.

In addition to collateral permitted for investments, collateral for deposits made with banks participating in the State's Excelsior Linked Deposit Program shall, subject to the discretion of the Commissioner of Taxation and Finance with confirmation to the Authority, include obligations permitted under Section 105 of the State Finance Law.

Certificates of deposit, demand deposits and time deposits shall be fully collateralized for amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

Securities purchased through a Repurchase Agreement shall be marked to market at least monthly.

Collateral shall not be required with respect to the purchase of obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, or money market funds.

Under any Repurchase Agreement, payment shall be made by or on behalf of the Authority to the seller upon the seller's delivery of obligations of the United States to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the obligations of the United States are credited to the Custodian's Federal Reserve Bank account. Payment shall be made by or on behalf of the Authority for obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, certificates of deposit, and other purchased securities upon the delivery thereof to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the purchased securities are credited to the Custodian's Federal Reserve System account.

IX. Written Contracts

The Authority has determined that, with the exception of Repurchase Agreements, written contracts are not a regular business practice for the types of securities (obligations of New York State, Federal Governmental Obligations, etc.) in which Authority monies may be invested. The interests of the Authority will be adequately protected by conditioning payment by or on behalf of the Authority on the physical delivery of purchased securities to the Authority or its Custodian, or, in the case of book-entry transactions, on the crediting of purchased securities to the Custodian's Federal Reserve System account. In addition, all purchases will be confirmed in writing to the Authority.

Only an Eligible Banking Institution or a Broker-Dealer shall be qualified to enter into a Repurchase Agreement with the Authority's fiscal agent. The Authority's fiscal agent shall enter into a Master Repurchase Agreement, patterned after the Bond Market Association (formerly Public Security Association) model master repurchase agreement, with each Eligible Banking Institution or Broker-Dealer with which the fiscal agent enters into a specific Repurchase Agreement. The Master Repurchase Agreement shall include:

- (a) a description of the relationship of the parties as purchaser and seller;
- (b) a description of the events of default which would permit the purchaser to liquidate the pledged collateral;

(c) procedures which ensure that the Authority obtains a perfected security interest in the underlying securities; and

(d) the method of computing margin maintenance requirements, including a limitation, based on policies established by the Commissioner of Taxation and Finance, that securities purchased and held as collateral for repurchase agreements shall be Federal Government Obligations maturing in twelve years or less, and provided that: (i) if such collateral has a maturity of seven years or less, the market value must equal or exceed 101% of the par value of the repurchase agreement; and (ii.) if such collateral has a maturity greater than seven years, the market value must equal or exceed 102% of the par value of the repurchase agreement.

X. Qualification of Custodians

The following shall be qualified to act as Custodian: the Commissioner of Taxation and Finance, any bank or trust company chartered by the State of New York which is not a member of the Federal Reserve System, or any bank, trust company, or national banking association which is a member of the Federal Reserve System, including an Eligible Banking Institution, which transacts business through offices located within the State of New York. During the time that any bank or trust company serves as Custodian, it must be rated at least "A", or its equivalent, by a nationally recognized independent rating agency. With respect to the holding of securities purchased by the Authority through a Repurchase Agreement, the Custodian may not be the Eligible Banking Institution with which the Authority or its fiscal agent has entered into such Repurchase Agreement, nor an agent of such Eligible Banking Institution for purposes of the Repurchase Agreement.

XI. Audit and Finance Committee

The functions of the Audit and Finance Committee with respect to investments are to:

- (a) monitor the system of internal controls;
- (b) verify relevant matters relating to securities purchased or held as collateral semi-annually and on an unscheduled basis;
- (c) determine whether the investment results are consistent with the investment objectives set forth in these Investment Guidelines;
- (d) review any independent audits of the investment program;
- (e) review these Investment Guidelines periodically and recommend to the Members of the Authority such amendments thereto as may be necessary or appropriate; and
- (f) evaluate systematically and periodically the investment program consistency with the provisions of PAL Section 2925, these Investment Guidelines, and the Office of the State Comptroller's Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3).

In support of its functions, the Audit and Finance Committee shall:

- (a) require the Authority's independent auditors to verify semi-annually, and at least once annually on an unscheduled basis, that the provisions of these Investment Guidelines relating to the delivery and possession of and payment for securities, and custodial possession and periodic valuation of collateral are being met;

(b) review the quarterly, annual, and any other periodic investment reports, and recommend to the Members of the Authority such changes in the annual investment report as it deems necessary or appropriate;

(c) review the written annual audit report of the independent auditors;

(d) discuss with the independent auditors, with staff and officers not present, the results of the annual independent audit and the written annual audit report; and

(e) review not less frequently than annually these Investment Guidelines, and recommend to the Members of the Authority such changes in these Investment Guidelines as it deems necessary or appropriate.

XII. Operations and Procedures

The Treasurer, or in his/her absence the Controller and Assistant Treasurer or any Authority Officer, shall authorize the purchase and sale of all securities, authorize the disbursement of funds for delivery of securities, determine the selection of brokers, dealers and Custodians, and execute contracts for Repurchase Agreements and custodial services on behalf of the Authority. The process of initiating, reviewing and approving requests to purchase and sell securities shall be documented and retained for audit purposes. Oral directions concerning the purchase or sale of securities shall be confirmed in writing. The Authority shall pay for purchased securities upon the delivery or book-entry thereof, and the Authority will obtain written confirmation of each delivery or book-entry. Custodians must have prior authorization from the Authority to deliver securities and collateral and shall not deliver securities except upon receipt of funds. Custodians shall confirm in writing all such transactions. Custodians shall report whenever activity has occurred in a custodial account of the Authority.

The Treasurer shall develop detailed investment procedures implementing the Investment Guidelines as part of the Accounting Policy and Procedures Manual which shall include, but not be limited to, the following:

(a) the establishment and maintenance of a system of internal controls for investments;

(b) methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;

(c) a data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and

(d) requirements for periodic reporting and a satisfactory level of accountability.

Except in the purchase of government securities at their initial auction, the Authority will encourage investment selections utilizing competitive quotations based upon the procedures established by the Commissioner of Taxation and Finance and carried out by his/her designated personnel.

The Treasurer shall maintain a record of investments. The record shall identify each security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and Custodian of the collateral.

At least monthly, the Authority shall verify the principal amount and market values of all investments and collateral. The Authority shall obtain appropriate listings from Custodians and compare such listings

against the records of the Authority.

XIII. Audit

At the time the independent auditors to the Authority conduct the annual audit of the accounts and financial affairs of the Authority, the independent auditors shall audit the investments of the Authority for the subject fiscal year. The annual investment audit shall determine whether:

- (a) the Authority's investment practices and operations have been consistent with the provisions of PAL Section 2925, these Investment Guidelines, the Office of the Comptroller's Investment Guidelines for Public Authorities, and the Authority's investment operating procedures contained in its Accounting Policies and Procedures Manual;
- (b) adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's investment assets; and
- (c) a system of adequate internal controls for investments is maintained.

The independent auditors shall prepare a written annual audit report which presents the results of their annual investment audit, and shall include:

- (a) a description of the scope and objectives of the audit;
- (b) a statement that the audit was made in accordance with generally accepted government auditing standards;
- (c) a description of any material weaknesses found in the internal investment controls;
- (d) a description of all non-compliance with provisions of PAL Section 2925, these Investment Guidelines, the Office of the State Comptroller's Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3), or the Authority's investment operating procedures contained in its Accounting Policies and Procedures Manual;
- (e) a statement of positive assurance of compliance on the items tested; and
- (f) a statement of any other material deficiency or finding identified during the audit not covered in (e) above.

XIV. Reporting

Within sixty (60) days of the end of each of the first three quarters of the Authority's fiscal year, the Treasurer shall prepare and submit to the Members of the Authority and to the Audit and Finance Committee of the Authority a quarterly investment report which indicates new investments, the inventory of existing investments, the selection of Custodians and Broker-Dealers, and such other matters as the Treasurer deems appropriate.

Within 120 days of the end of the fiscal year, the Treasurer shall prepare and submit to the Audit and Finance Committee an annual investment report, which shall include the Investment Guidelines, including any amendment to the Investment Guidelines since the last annual investment report; an explanation of the Investment Guidelines and amendments; the results of the annual independent audit; the investment income record; a list of total fees, commissions or other charges paid to each Broker-Dealer and Custodian; and such

other matters as the Treasurer deems appropriate.

The Members of the Authority shall review and approve the annual investment report, if practicable, at the June meeting of the Authority, for submission thereof to the Division of the Budget, the Department of Audit and Control, the Senate Finance Committee, and the Assembly Ways and Means Committee.

The Authority's annual financial statements shall report the Authority's investments and provide such disclosure information as is required by applicable governmental accounting standards.

Not less frequently than annually, and if practicable, at the June meeting of the Authority, the Members of the Authority shall review, amend, if necessary or appropriate, and approve these Investment Guidelines.

The provisions of these Investment Guidelines and any amendments hereto shall take effect prospectively and shall not invalidate the prior selection of any Custodian, Broker-Dealer, any prior investment, nor any list of permitted investments set forth in any indenture of trust or similar document previously executed by the Authority.