

**NEW YORK STATE ENERGY RESEARCH
AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)**

FINANCIAL STATEMENTS

March 31, 2013

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RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation, integrity and objectivity of the financial statements of the New York State Energy Research and Development Authority (the Authority), as well as all other information contained in the Authority's Annual Report. The financial statements of the Authority for the fiscal year ending March 31, 2013 were prepared in conformity with accounting principles generally accepted in the United States of America. Financial information contained elsewhere in the Annual Report is consistent with the financial statements. The Board of the Authority adopted these financial statements and the Annual Report at a meeting on June 17, 2013.

The Authority maintains a system of internal controls, the objectives of which are to provide reasonable assurance as to the proper authorization and recording of transactions, the safeguarding of Authority assets, the compliance with applicable laws and regulations, and the reliability of financial records for preparing financial statements. The internal control structure is subject to periodic review by management, internal audit staff and the independent auditors. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority's financial statements have been audited by KPMG, LLP independent auditors appointed by the Members of the Authority. Management has made available to the independent auditors all the financial records and related data of the Authority, as well as providing access to all the minutes of the meetings of the Board and its standing committees. The independent auditors periodically meet directly with the Audit and Finance Committee of the Board, which is comprised of Members who are not employees of the Authority.

The independent audit included obtaining an understanding of the internal control structure, tests of accounting records, and other procedures which the independent auditors considered necessary in order to express an opinion as to the fairness of the presentation of the financial statements. No material weaknesses in internal control or any condition of non-compliance with applicable laws, regulations or policy were noted by the independent auditors. The unmodified independent auditors' report attests that the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.



Francis J. Murray, Jr.
President and
Chief Executive Officer



Jeffrey J. Pitkin
Treasurer and
Chief Financial Officer



KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying 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 as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the New York State Energy Research and Development Authority as of March 31,



2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
June 17, 2013

New York State Energy Research and Development Authority
(A Component Unit of the State of New York)
Management's Discussion and Analysis
For the Year Ended March 31, 2013
Unaudited

The following Management's Discussion and Analysis (MD&A) of New York State Energy Research and Development Authority's (NYSERDA) financial performance provides an overview of NYSERDA's financial activities for the fiscal year ended March 31, 2013. The information contained in the MD&A should be considered in conjunction with the information presented as part of NYSERDA's Basic Financial Statements as presented. Following this MD&A are the basic financial statements of NYSERDA with the notes thereto that are essential to a full understanding of the data contained in the financial statements. NYSERDA's basic financial statements have the following components: (1) government-wide financial statements; (2) governmental fund financial statements; (3) fiduciary fund statements; and (4) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of NYSERDA's finances in a manner similar to a private-sector business. The *Statement of Net Position* presents information on all of NYSERDA's assets and liabilities, and the difference between the two is reported as *net position*. The *Statement of Activities* presents information showing how NYSERDA's net position change during each fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods. The government-wide financial statements present information about NYSERDA as a whole. All of the activities of NYSERDA are considered to be governmental activities.

Governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The *Statement of Fiduciary Net Position* and *Statement of Changes in Fiduciary Net Position* are used to account for resources held by NYSERDA in a fiduciary capacity for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support NYSERDA's programs.

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and governmental fund financial statements.

CONDENSED FINANCIAL INFORMATION

The following condensed financial information is presented from NYSERDA's government-wide financial statements:

| | <i>(Amounts in thousands)</i> | | |
|----------------------------------|-------------------------------|---------------------------|-------------------------------|
| Summary of Net Position | March 31, 2013 | March 31, 2012 | % Change 2013-2012 |
| Cash and investments | \$1,081,170 | 1,021,520 | 5.8% |
| Capital assets | 12,883 | 13,275 | -3.0% |
| Other assets | 142,083 | 43,160 | 229.2% |
| Total assets | 1,236,136 | 1,077,955 | 14.7% |
| Long-term liabilities | 6,432 | 6,609 | -2.7% |
| Other liabilities | 83,868 | 98,554 | -14.9% |
| Total liabilities | 90,300 | 105,163 | -14.1% |
| Net Position: | | | |
| Unrestricted | 3,568 | 3,238 | 10.2% |
| Net investment in capital assets | 12,784 | 12,814 | -0.2% |
| Restricted | 1,129,484 | 956,740 | 18.1% |
| Total Net Position | <u>\$1,145,836</u> | <u>972,792</u> | <u>17.8%</u> |

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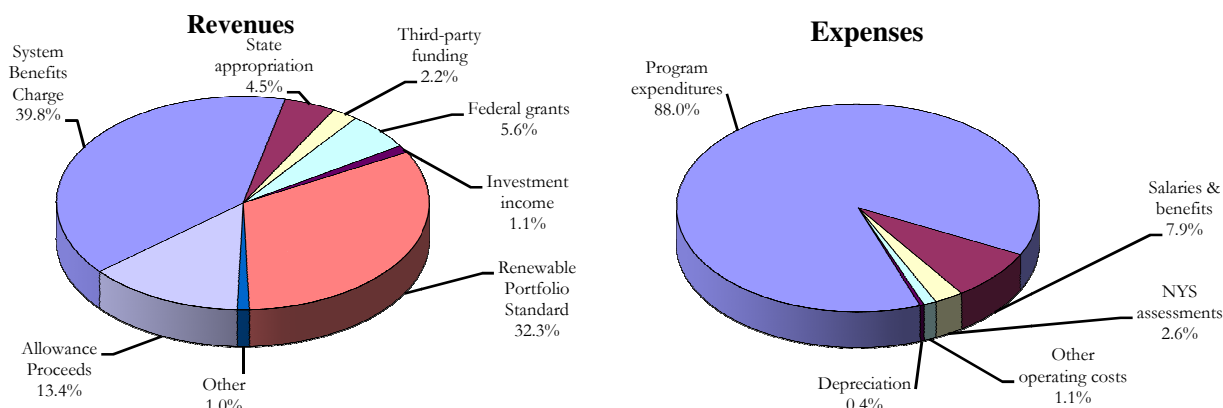
Total assets increased \$158.1 million (14.7%). Cash and investments increased \$59.6 million (5.8%) principally due to revenues in the Technology and Market Development, Renewable Portfolio Standard, and Regional Greenhouse Gas Initiative programs which exceeded expenses, offset by a decrease for the EEPS program primarily due to an Order issued by the Public Service Commission ("PSC") to defer collections for the extension of the program in consideration of the timing of projected program expenditures. Other assets increased \$98.9 million (229.2%) principally due to accrual of a \$94.2 million receivable for the Energy Efficiency Portfolio Standard (EEPS) program, representing expenses in excess of collections and transfers, as well as a \$16.7 million increase in loans outstanding through the Green Jobs-Green New York program.

Total liabilities decreased \$14.9 million (14.1%). Long-term liabilities decreased \$0.2 million (2.7%) primarily due to payoff of mortgage and capital lease debt. Other liabilities decreased \$14.7 million (14.9%) primarily due to a decrease in amounts payable to Con Edison as a result of refund and other scheduled payments made during the fiscal year, and from a decrease in Accounts payable, which decreased as a result of timing of vendor billings and payments.

Net position, the difference between NYSERDA's assets and its liabilities, increased by 17.8% from \$972.8 million to \$1,145.8 million. Restricted net position (unexpended funds received for particular specified programmatic purposes) increased 18.1% to \$1,129.5 million. Unrestricted net position, (which can be used to finance operations without constraints established by debt covenants, enabling legislation, or other legal requirements), increased 10.2%, to \$3.6 million.

| <i>(Amounts in thousands)</i> | | | |
|--|----------------------------------|----------------------------------|--------------------------------------|
| Summary of Changes in Net Position from Operating Results | March 31, <u>2013</u> | March 31, <u>2012</u> | % Change <u>2013-2012</u> |
| Program Revenues: | | | |
| State Appropriations | \$29,311 | 30,463 | -3.8% |
| System Benefits Charge Funding | 262,046 | 217,376 | 20.5% |
| Renewable Portfolio Standard | 213,228 | 178,585 | 19.4% |
| Allowance Proceeds | 88,447 | 49,703 | 78.0% |
| Third-party reimbursements | 14,821 | 8,336 | 77.8% |
| Federal grants | 37,234 | 148,841 | -75.0% |
| Investment income | 7,197 | 13,990 | -48.6% |
| Other Program Revenue | 6,835 | 6,532 | 4.6% |
| General Revenues (Investment income) | 174 | 250 | -30.4% |
| Total Revenues | 659,293 | 654,076 | 0.8% |
| Expenses: | | | |
| Salaries and Benefits | 38,433 | 37,009 | 3.8% |
| Program Expenditures | 427,896 | 488,369 | -12.4% |
| Other Operating Costs | 5,587 | 5,070 | 10.2% |
| Depreciation | 1,779 | 1,842 | -3.4% |
| NY State Assessments | 12,554 | 11,658 | 7.7% |
| Total Expenses | 486,249 | 543,948 | -10.6% |
| Increase in Net Position | <u>\$173,044</u> | <u>110,128</u> | <u>57.1%</u> |

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Total Revenue increased 0.8% from \$654.1 million to \$659.3 million. State appropriation revenue decreased \$1.2 million (3.8%) primarily as a result of West Valley program revenue recorded in the prior fiscal year which funded a portion of the current fiscal year program expenses. System Benefits Charge revenue increased \$44.7 million (20.5%) principally due to accrual of revenues for the Energy Efficiency Portfolio Standard program as described above. Renewable Portfolio Standard revenue increased \$34.6 million (19.4%) as a result of scheduled increases in utility assessment collections transferred to NYSERDA. Allowance proceeds increased significantly, by \$38.7 million (78.0%) due to both higher auction clearing prices for allowances being sold, and the sale of approximately 51% more allowances than in the prior year. Third party reimbursements increased by \$6.5 million (77.8%), principally related to recording the reimbursable share of West Valley program expenses. Also contributing to the increase was funding which supplemented incentive levels in one of the technologies in the Renewable Portfolio Standard program. Federal grants revenue decreased by \$111.6 million (75.0%) primarily due to the winding down of certain ARRA grants. Total investment income decreased by \$6.8 million (48.6%) primarily due to the change in unrealized gain or loss from fluctuations in market value of investments held. Other Program Revenues increased by \$0.3 million (4.6%) primarily due to an increase in recoupment revenue, as well as unanticipated hookup fee revenues in the STEP program, offset by a large decrease in Renewable Portfolio Standard program fees.

Total Expenses decreased 10.6% from \$543.9 million to \$486.2 million. Salaries and benefits increased \$1.4 million (3.8%), principally due to an increase in full-time equivalent employees resulting from filling certain vacancies during the year. Program Expenditures decreased \$60.5 million (12.4%) primarily due to lower expenditures funded through expiring ARRA grant funds offset in partly higher Regional Greenhouse Gas Initiative program expenditures. The NY State Assessment increased by \$0.9 million (7.7%) over the prior year due to an increase in NYSERDA's annual assessment.

FINANCIAL ANALYSIS OF FUNDS

Total fund balances for the Governmental Funds increased from \$966.1 million to \$1,074.8 million as further described below:

- The New York Energy \$mart fund balance, which accounts for the **New York Energy \$martSM** Program funded through the System Benefits Charge, increased slightly from \$179.4 million to \$182.4 million due to resumption of scheduled collections previously deferred, offset in large part by both expenditure of funds and a transfer of \$27.3 million to the Technology and Market Development fund, less net transfers from the Energy Efficiency Portfolio Standard fund of \$10.9 million as directed by Public Service Commission Orders.
- The Energy Efficiency Portfolio Standard fund balance decreased from \$227.7 million to \$101.1 million principally due to transfers directed by Public Service Commission Orders of \$85.9 million to the Technology & Market Development Portfolio fund, and \$10.9 million (net) to the New York Energy \$mart fund.
- The Technology & Market Development Portfolio fund balance increased from \$11.7 million to \$168.6 million and reflects the first full fiscal year of scheduled collections as well as transfers of \$113.2 million from both the New York Energy \$mart and Energy Efficiency Portfolio Standard programs as ordered by the Public Service Commission.
- The Renewable Portfolio Standard fund balance increased from \$233.8 million to \$338.1 million principally as a result of funds received from scheduled collections, in excess of amounts spent. The restricted fund balance is comprised of funds for both the Main Tier which entails long-term contracts, as well as the Customer Sited Tier, principally including

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funds transferred from the Main Tier in April 2012 pursuant to the establishment of the NY Sun Competitive PV initiative.

- The RGGI fund balance increased from \$111.1 million to \$168.1 million principally as a net result of additional allowance proceeds collected but not yet spent. Due to the inherent risk of revenue inflows in this program, commitment of the funds does not occur in advance, thus creating a longer lag in expenditures than is typical of other funds.
- The Other Programs fund balance decreased from \$202.5 million to \$181.08 million due principally as a result of expenditure of the corpus of funds originally provided for the Green Jobs Green NY program, as well as expenditure of funds provided in advance for the Con Edison Gas Efficiency program, and expenditure recognized for a refund in the Con Edison System Wide Demand Reduction program.

CAPITAL ASSET AND DEBT ADMINISTRATION

NYSERDA maintains land, buildings, and furniture and equipment in various locations for its corporate purposes. Total capital assets as of March 31, 2013 were \$12.9 million, net of accumulated depreciation. Capital asset additions for the fiscal year ended March 31, 2013 were approximately \$1.5 million, primarily for technology equipment upgrades and land improvements at STEP.

Total long-term liabilities decreased from \$6.6 million to \$6.4 million primarily due to the scheduled payoff of mortgage debt for NYSERDA's corporate office building, and early payoff of a capital lease obligation at STEP in anticipation of the sale of related real property. Partially offsetting these decreases, two new notes payable were entered into to fund vehicle and office equipment purchases.

NYSERDA also issues tax-exempt bonds on a conduit basis on behalf of utility companies to finance certain eligible projects. As of March 31, 2013, approximately \$3.4 billion of bonds are outstanding. These bonds are non-recourse bonds and as such are not included in NYSERDA's financial statements.

ECONOMIC FACTORS

A substantial portion of NYSERDA's annual revenues are derived from sources, whose collection schedules, pursuant to Orders of the PSC, are currently scheduled to expire, unless extended, as follows: New York Energy \$mart funds January 2014, Energy Efficiency Portfolio Standard, December 2018, Technology and Market Development Portfolio funds, December 2017 and Renewable Portfolio Standard funds, October 2024.

On behalf of the State, NYSERDA manages the Western New York Nuclear Service Center (West Valley), the site of a former plant for reprocessing used nuclear fuel. Depending upon the clean-up options selected and agreement on cost sharing with the federal government, these costs could be substantial. It is anticipated that New York State's share of future costs for the West Valley site will be provided by New York State to NYSERDA and will not impact NYSERDA's current funding. As permitted by GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, no liability has been recorded in NYSERDA's financial statements for this contingency due to the expected recoveries from New York State.

NYSERDA's programs are impacted by a number of factors including, but not limited to, general economic conditions, energy prices, energy system reliability, and energy technology advancements. Revenues in the Regional Greenhouse Gas Initiative program in particular can be highly sensitive to some of the aforementioned factors.

New York State Energy Research and Development Authority
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For the Year Ended March 31, 2013
Unaudited

BUDGETARY INFORMATION

The following table summarizes actual revenues and expenses, as reported in the Statement of Activities, for the fiscal year ended March 31, 2013, in comparison to amounts included in the final Budget approved by NYSERDA's Board:

| | <i>(Amounts in thousands)</i> | | |
|---|-------------------------------|----------------|-----------------|
| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
| Revenues: | | | |
| State appropriations | \$29,311 | 33,380 | (4,069) |
| System Benefits Charge | 262,046 | 177,251 | 84,795 |
| Renewable Portfolio Standard | 213,228 | 213,228 | - |
| Allowance Proceeds | 88,447 | 66,940 | 21,507 |
| Third-party contributions | 3,200 | 3,200 | - |
| Third-party reimbursements | 14,821 | 9,075 | 5,746 |
| Federal grants | 37,234 | 65,109 | (27,875) |
| Project repayments | 765 | 601 | 164 |
| Rentals from leases | 1,280 | 1,254 | 26 |
| Fees and other income | 1,590 | 2,138 | (548) |
| Interest income | 11,064 | 9,145 | 1,919 |
| Net change in fair value of investments | (3,693) | - | (3,693) |
| Total Revenues | 659,293 | 581,321 | 77,972 |
| Expenses: | | | |
| Salaries and benefits | 38,433 | 40,388 | (1,955) |
| Program expenditures | 427,896 | 680,427 | (252,532) |
| Other operating costs | 5,587 | 6,020 | (433) |
| Depreciation | 1,779 | 1,801 | (22) |
| NY State Assessments | 12,554 | 11,656 | 898 |
| Total Expenses | 486,249 | 740,292 | (254,043) |
| Excess Revenues/(Expenses) | 173,044 | (158,971) | 332,015 |
| Net Position, beginning of year | 972,792 | 972,792 | - |
| Net Position, end of year | | | |
| Net investment in capital assets | 12,784 | 12,114 | 670 |
| Restricted for specific programs | 1,129,484 | 798,455 | 331,029 |
| Unrestricted | 3,568 | 3,252 | 316 |
| Total Net Position, end of year | <u>\$1,145,836</u> | <u>813,821</u> | <u>332,015</u> |

Total revenues were approximately \$78.0 million, or 13.4% higher than the approved Budget. State appropriation revenues were less than budgeted principally due to the level of reimbursable expenditures for certain programs funded through State appropriations. Also contributing to the variance, certain West Valley program costs were funded from revenues recorded in the prior fiscal year. System Benefits Charge collections were higher than anticipated since the budget did not contemplate the accrual of revenues for expenses in excess of deferred collections for the Energy Efficiency Portfolio Standard program. Federal grants revenue was much less than budget due to the level of actual reimbursable expenditures, principally under several ARRA grants. Fees and other income were lower than budget principally due to income from the anticipated sale of real property at STEP which was not completed during this fiscal year, offset by approximately \$0.9 million of unanticipated hookup fees related to construction at STEP. Interest income was higher than budget principally due to a larger average balance of investments than anticipated.

Total expenses were approximately \$254.0 million, or 34.3%, below the approved Budget. Salaries and benefits were lower than anticipated principally due to no performance-based salary increases or payments having been authorized during the fiscal year, although these amounts were included in the budget. Fringe benefits were less than budget primarily due to smaller than expected accrued expenses for compensated absences, and lower expenses for post-employment health insurance benefits than anticipated. Program expenditures were less than budgeted primarily due to timing of anticipated expenditures for several programs. Other Operating Costs were less than budgeted primarily due to lower than expected

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costs incurred for various consultant services and travel costs, as well as timing differences. NY State Assessments was higher than budgeted due to an unanticipated increase of \$895,000 in the annual assessment.

CONTACT FOR AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the finances of NYSERDA for interested parties. Questions concerning any information within this report or requests for additional information should be addressed to Jeffrey J. Pitkin, Treasurer, 17 Columbia Circle, Albany NY 12203.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Statement of Net Position
March 31, 2013
(with comparative totals for March 31, 2012)
(Amounts in thousands)

| | March 31, <u>2013</u> | March 31, <u>2012</u> |
|---|--------------------------|--------------------------|
| <u>ASSETS:</u> | | |
| Current assets: | | |
| Cash and investments | \$1,081,170 | 1,021,520 |
| New York State receivable | 5,826 | 8,612 |
| Third-party billings receivable | 107,328 | 22,143 |
| Interest receivable on loans | 37 | 19 |
| Loans receivable due within one year | 2,274 | 1,055 |
| Prepaid expense | 242 | 437 |
| Total current assets | <u>1,196,877</u> | <u>1,053,786</u> |
| Noncurrent assets: | | |
| Loans receivable- long term | 26,376 | 10,894 |
| Capital assets, net of depreciation | 12,883 | 13,275 |
| Total noncurrent assets | <u>39,259</u> | <u>24,169</u> |
| Total assets | <u>1,236,136</u> | <u>1,077,955</u> |
| <u>LIABILITIES:</u> | | |
| Current liabilities: | | |
| Long-term liabilities due within one year | 2,540 | 2,981 |
| Accounts payable | 20,607 | 25,736 |
| Con Edison payable | 8,700 | 15,368 |
| Accrued liabilities | 53,513 | 56,710 |
| Deferred revenue | 1,048 | 740 |
| Total current liabilities | <u>86,408</u> | <u>101,535</u> |
| Noncurrent liabilities: | | |
| Other long-term liabilities | 3,892 | 3,628 |
| Total liabilities | <u>90,300</u> | <u>105,163</u> |
| <u>NET POSITION:</u> | | |
| Net investment in capital assets | 12,784 | 12,814 |
| Restricted for specific programs | 1,129,484 | 956,740 |
| Unrestricted | 3,568 | 3,238 |
| Total net position | <u>1,145,836</u> | <u>972,792</u> |

See accompanying notes to the basic financial statements.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Statement of Activities
For the year ended March 31, 2013
(with summarized comparative totals for March 31, 2012)
(Amounts in thousands)

| | Functions/Programs | | | | | | | |
|---|---------------------------------|--|--|---|---|---|--|-------------|
| | New York <u>Energy Smart</u> | Energy Efficiency Portfolio <u>Standard</u> | Technology and Market Development Portfolio <u>Portfolio</u> | Renewable Portfolio <u>Standard</u> | Energy Research & Development <u>Development</u> | Energy Efficiency Deployment <u>Deployment</u> | Con Edison System Wide Demand Reduction <u>Reduction</u> | <u>RGGI</u> |
| EXPENSES: | | | | | | | | |
| Salaries and benefits | \$725 | 12,177 | 5,618 | 3,514 | 3,714 | 3,210 | 2 | 2,158 |
| Program expenditures | 66,279 | 131,078 | 8,486 | 107,143 | 11,806 | 42,226 | 3,046 | 29,992 |
| Other operating costs | 99 | 1,535 | 763 | 463 | 471 | 396 | - | 264 |
| Depreciation | 29 | 480 | 224 | 139 | 149 | 128 | - | 85 |
| NY State Assessments | 1,965 | 3,817 | 387 | 2,969 | 386 | 291 | 26 | 775 |
| Total expenses | 69,097 | 149,087 | 15,478 | 114,228 | 16,526 | 46,251 | 3,074 | 33,274 |
| PROGRAM REVENUES: | | | | | | | | |
| <i>Operating grants and contributions</i> | | | | | | | | |
| State appropriations | - | - | - | - | 12,605 | 1,030 | - | - |
| System Benefits Charge | 87,237 | 116,831 | 57,978 | - | - | - | - | - |
| Renewable Portfolio Standard | - | - | - | 213,228 | - | - | - | - |
| Allowance proceeds | - | - | - | - | - | - | - | 88,447 |
| Third-party contributions | - | - | - | - | 3,200 | - | - | - |
| Third-party reimbursements | 22 | 1,657 | - | 3,000 | 638 | 3,640 | 11 | - |
| Federal Grants | - | - | - | - | - | 35,827 | - | - |
| <i>Charges for Services</i> | | | | | | | | |
| Project repayments | - | - | - | - | 765 | - | - | - |
| Rentals from leases | - | - | - | - | - | - | - | - |
| Fees and other income | - | 74 | 76 | 21 | 19 | - | - | - |
| Restricted interest | 2,995 | 2,141 | 329 | 2,747 | - | 97 | 138 | 1,015 |
| Net change in fair value of investments | (1,736) | (1,581) | 727 | (552) | - | (47) | (58) | (104) |
| Total program revenues | 88,518 | 119,122 | 59,110 | 218,444 | 17,227 | 40,547 | 91 | 89,358 |
| Excess Revenues / (Expenses) | \$19,421 | (29,965) | 43,632 | 104,216 | 701 | (5,704) | (2,983) | 56,084 |
| GENERAL REVENUES: | | | | | | | | |
| Unrestricted Interest | | | | | | | | |
| Net change in fair value of investments | | | | | | | | |
| Change in net position | | | | | | | | |
| Net position-beginning of period | | | | | | | | |
| Net position-end of period | | | | | | | | |

See accompanying notes to the basic financial statements.

Functions/Programs (cont'd)

| | <u>GJGNY</u> | <u>CAIR</u> | <u>Energy Analysis</u> | <u>West Valley</u> | <u>STEP</u> | <u>Bond Financing</u> | Total March 31, <u>2013</u> | Total March 31, <u>2012</u> |
|---|--------------|-------------|----------------------------|------------------------|-------------|---------------------------|-----------------------------------|-----------------------------------|
| EXPENSES: | | | | | | | | |
| Salaries and benefits | 1,298 | 162 | 3,350 | 2,057 | 413 | 35 | 38,433 | 37,009 |
| Program expenditures | 14,429 | 2,720 | 139 | 10,526 | 26 | - | 427,896 | 488,369 |
| Other operating costs | 182 | 27 | 564 | 367 | 452 | 4 | 5,587 | 5,070 |
| Depreciation | 52 | 6 | 133 | 92 | 261 | 1 | 1,779 | 1,842 |
| NY State Assessments | 423 | 75 | 114 | 356 | 31 | 939 | 12,554 | 11,658 |
| Total expenses | 16,384 | 2,990 | 4,300 | 13,398 | 1,183 | 979 | 486,249 | 543,948 |
| PROGRAM REVENUES: | | | | | | | | |
| <i>Operating grants and contributions</i> | | | | | | | | |
| State appropriations | - | - | 4,176 | 11,500 | - | - | 29,311 | 30,463 |
| System Benefits Charge | - | - | - | - | - | - | 262,046 | 217,376 |
| Renewable Portfolio Standard | - | - | - | - | - | - | 213,228 | 178,585 |
| Allowance proceeds | - | - | - | - | - | - | 88,447 | 49,703 |
| Third-party contributions | - | - | - | - | - | - | 3,200 | 3,200 |
| Third-party reimbursements | - | - | - | 5,843 | 10 | - | 14,821 | 8,336 |
| Federal Grants | 1,383 | - | 24 | - | - | - | 37,234 | 148,841 |
| <i>Charges for Services</i> | | | | | | | | |
| Project repayments | - | - | - | - | - | - | 765 | 383 |
| Rentals from leases | - | - | - | - | 280 | 1,000 | 1,280 | 1,244 |
| Fees and other income | 2 | - | (1) | - | 947 | 452 | 1,590 | 1,705 |
| Restricted interest | 1,080 | 338 | - | - | - | - | 10,880 | 11,563 |
| Net change in fair value of investments | (80) | (252) | - | - | - | - | (3,683) | 2,427 |
| Total program revenues | 2,385 | 86 | 4,199 | 17,343 | 1,237 | 1,452 | 659,119 | 653,826 |
| Excess Revenues / (Expenses) | (13,999) | (2,904) | (101) | 3,945 | 54 | 473 | 172,870 | 109,878 |
| GENERAL REVENUES: | | | | | | | | |
| Unrestricted Interest | | | | | | | 184 | 185 |
| Net change in fair value of investments | | | | | | | (10) | 65 |
| Change in net position | | | | | | | 173,044 | 110,128 |
| Net position-beginning of period | | | | | | | 972,792 | 862,664 |
| Net position-end of period | | | | | | | \$1,145,836 | 972,792 |

See accompanying notes to the basic financial statements.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Balance Sheet - Governmental Funds
March 31, 2013
(with summarized comparative totals for March 31, 2012)
(Amounts in thousands)

| | New York Energy Smart | Energy Efficiency Portfolio Standard | Technology & Market Development | Renewable Portfolio Standard | RGGI | Other Programs | Total March 31, 2013 | Total March 31, 2012 |
|--|-----------------------------|---|---------------------------------------|------------------------------------|---------|-------------------|----------------------------|----------------------------|
| <u>ASSETS:</u> | | | | | | | | |
| Cash and investments | \$195,370 | 20,067 | 162,902 | 353,520 | 178,255 | 171,056 | 1,081,170 | 1,021,520 |
| Receivables: | | | | | | | | |
| New York State | - | - | - | - | - | 5,826 | 5,826 | 8,612 |
| Third-party billings | 1,756 | 96,826 | 6,761 | - | - | 1,985 | 107,328 | 22,143 |
| Interest on loans | - | - | - | - | - | 37 | 37 | 19 |
| Loans | - | - | - | - | - | 28,650 | 28,650 | 11,949 |
| Prepaid expense | - | - | - | - | - | 242 | 242 | 437 |
| Due from other funds | - | 671 | 123 | 989 | - | 2,002 | 3,785 | 9,722 |
| Total assets | 197,126 | 117,564 | 169,786 | 354,509 | 178,255 | 209,798 | 1,227,038 | 1,074,402 |
| <u>LIABILITIES AND FUND BALANCES:</u> | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | 5,281 | 2,239 | 265 | 2,359 | 1,307 | 9,156 | 20,607 | 25,736 |
| Con Edison payable | - | - | - | - | 5,745 | 2,955 | 8,700 | 15,368 |
| Accrued liabilities | 7,603 | 14,177 | 962 | 14,042 | 3,010 | 13,719 | 53,513 | 56,710 |
| Due to other funds | 1,806 | - | - | - | 56 | 1,923 | 3,785 | 9,722 |
| Deferred revenue | - | - | - | - | - | 1,048 | 1,048 | 740 |
| Total liabilities | 14,690 | 16,416 | 1,227 | 16,401 | 10,118 | 28,801 | 87,653 | 108,276 |
| Fund Balances: | | | | | | | | |
| Nonspendable-not in spendable form | - | - | - | - | - | 242 | 242 | 437 |
| Restricted | 182,436 | 101,148 | 168,559 | 338,108 | 168,137 | 179,821 | 1,138,209 | 964,176 |
| Assigned | - | - | - | - | - | 558 | 558 | 1,513 |
| Unassigned | - | - | - | - | - | 376 | 376 | - |
| Total fund balances | 182,436 | 101,148 | 168,559 | 338,108 | 168,137 | 180,997 | 1,139,385 | 966,126 |
| Total liabilities and fund balances | \$197,126 | 117,564 | 169,786 | 354,509 | 178,255 | 209,798 | 1,227,038 | 1,074,402 |

Following is a reconciliation of amounts reported differently in the Statement of Net Position:

| | | |
|--|--------------------|----------------|
| Total fund balances | 1,139,385 | 966,126 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 12,883 | 13,275 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | (6,432) | (6,609) |
| Net position of governmental activities | <u>\$1,145,836</u> | <u>972,792</u> |

See accompanying notes to the basic financial statements.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the year ended March 31, 2013
(with summarized comparative totals for March 31, 2012)
(Amounts in thousands)

| | New York Energy Smart | Energy Efficiency Portfolio Standard | Technology and Market Development Portfolio | Renewable Portfolio Standard | RGGI | Other Programs | Total March 31, 2013 | Total March 31, 2012 |
|---|-----------------------------|---|--|------------------------------------|--------|-------------------|----------------------------|----------------------------|
| REVENUES: | | | | | | | | |
| State appropriations | \$ - | - | - | - | - | 29,311 | 29,311 | 30,463 |
| System Benefits Charge | 87,237 | 116,831 | 57,978 | - | - | - | 262,046 | 217,376 |
| Renewable Portfolio Standard | - | - | - | 213,228 | - | - | 213,228 | 178,585 |
| Allowance proceeds | - | - | - | - | 88,447 | - | 88,447 | 49,703 |
| Third-party contributions | - | - | - | - | - | 3,200 | 3,200 | 3,200 |
| Third-party reimbursements | 22 | 1,657 | - | 3,000 | - | 10,142 | 14,821 | 8,336 |
| Project repayments | - | - | - | - | - | 765 | 765 | 383 |
| Federal grants | - | - | - | - | - | 37,234 | 37,234 | 148,841 |
| Rentals from leases | - | - | - | - | - | 1,280 | 1,280 | 1,244 |
| Interest | 2,995 | 2,141 | 329 | 2,747 | 1,015 | 1,837 | 11,064 | 11,748 |
| Net change in fair value of investments | (1,736) | (1,581) | 727 | (552) | (104) | (447) | (3,693) | 2,492 |
| Fees and other income | - | 74 | 76 | 21 | - | 1,419 | 1,590 | 1,705 |
| Total revenue | 88,518 | 119,122 | 59,110 | 218,444 | 89,358 | 84,741 | 659,293 | 654,076 |

EXPENDITURES:

Current:

| | | | | | | | | |
|---|--------|---------|--------|---------|--------|---------|---------|---------|
| New York Energy Smart | 69,071 | - | - | - | - | - | 69,071 | 125,308 |
| Energy Efficiency Portfolio Standard | - | 148,653 | - | - | - | - | 148,653 | 114,088 |
| Technology and Market Development Portfolio | - | - | 15,276 | - | - | - | 15,276 | 2,240 |
| Renewable Portfolio Standard | - | - | - | 114,102 | - | - | 114,102 | 79,901 |
| Energy Research and Development | - | - | - | - | - | 16,391 | 16,391 | 12,292 |
| Energy Efficiency Deployment | - | - | - | - | - | 46,135 | 46,135 | 151,764 |
| Con Edison System Wide Demand Reduction | - | - | - | - | - | 3,074 | 3,074 | 13,139 |
| RGGI | - | - | - | - | 33,197 | - | 33,197 | 11,702 |
| GJGNY | - | - | - | - | - | 16,338 | 16,338 | 11,632 |
| CAIR | - | - | - | - | - | 2,984 | 2,984 | 2,110 |
| Energy Analysis | - | - | - | - | - | 4,180 | 4,180 | 4,498 |
| West Valley | - | - | - | - | - | 13,314 | 13,314 | 11,329 |
| STEP | - | - | - | - | - | 923 | 923 | 1,607 |
| Bond Financing | - | - | - | - | - | 978 | 978 | 977 |
| Capital outlay | 13 | 222 | 103 | 64 | 39 | 977 | 1,418 | 623 |
| Total expenditures | 69,084 | 148,875 | 15,379 | 114,166 | 33,236 | 105,294 | 486,034 | 543,210 |

OTHER FINANCING SOURCES (USES):

| | | | | | | | | |
|----------------------------------|-----------|-----------|---------|---------|---------|----------|-----------|---------|
| Operating transfers, net | (16,355) | (96,804) | 113,159 | - | 932 | (932) | - | - |
| Net change in fund balances | 3,079 | (126,557) | 156,890 | 104,278 | 57,054 | (21,485) | 173,259 | 110,866 |
| Fund balances, beginning of year | 179,357 | 227,705 | 11,669 | 233,830 | 111,083 | 202,482 | 966,126 | 855,260 |
| Fund balances, end of year | \$182,436 | 101,148 | 168,559 | 338,108 | 168,137 | 180,997 | 1,139,385 | 966,126 |

Following is a reconciliation of amounts reported differently in the Statement of Activities:

| | | |
|---|-----------|---------|
| Net change in fund balances | 173,259 | 110,866 |
| Capitalization and depreciation of capital outlays, rather than recording as an expenditure | (505) | (1,220) |
| Expenses for compensated absences in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds | (185) | (225) |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position | 475 | 707 |
| Change in net position of governmental activities | \$173,044 | 110,128 |

See accompanying notes to the basic financial statements.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Statement of Fiduciary Net Position
March 31, 2013 (except for Other Postemployment Benefits Trust Fund which is as of December 31, 2012)
(Amounts in thousands)

| | OPEB | |
|---|-------------------|--------------------|
| | <u>Trust Fund</u> | <u>Agency Fund</u> |
| <u>ASSETS:</u> | | |
| Cash and investments | \$23,116 | \$33,069 |
| LLRW assessment billings receivable | - | 2,254 |
| Total assets | <u>23,116</u> | <u>\$35,323</u> |
| <u>LIABILITIES:</u> | | |
| Accrued expenses | 12 | \$ - |
| Payable to New York State | - | 1,758 |
| LLRW escrow funds | - | 4,944 |
| Perpetual care of nuclear wastes | - | 28,621 |
| Total liabilities | <u>12</u> | <u>\$35,323</u> |
| <u>NET POSITION:</u> | | |
| Held in trust for other postemployment benefits | <u>\$23,104</u> | |

See accompanying notes to the basic financial statements.

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)
Statement of Changes in Fiduciary Net Position
March 31, 2013 (except for Other Postemployment Benefits Trust Fund which is as of December 31, 2012)
(Amounts in thousands)

| | OPEB Trust Fund |
|---|-------------------------|
| <u>ADDITIONS:</u> | |
| Employer contributions | \$ 3,700 |
| Investment income: | |
| Dividend income | 699 |
| Net change in fair value of investments | 1,348 |
| Total investment income | <u>2,047</u> |
| Less investment management expenses | <u>(10)</u> |
| Net investment income | <u>2,037</u> |
| Total additions | <u>5,737</u> |
| <u>DEDUCTIONS:</u> | |
| Benefits | 665 |
| Trustee management fees | 5 |
| Audit fees | 8 |
| Total deductions | <u>678</u> |
| Net change in net position | 5,059 |
| Net position | |
| Net position-beginning of year | 18,045 |
| Net position-end of year | <u><u>\$ 23,104</u></u> |

See accompanying notes to the basic financial statements.

**NEW YORK STATE ENERGY
RESEARCH AND DEVELOPMENT AUTHORITY
(A Component Unit of the State of New York)**

**Notes to Basic Financial Statements
March 31, 2013**

(1) GENERAL

The New York State Energy Research and Development Authority (NYSERDA) is a public benefit corporation established in 1975 pursuant to Title 9 of Article 8 of the Public Authorities Law of the State of New York (the State). NYSERDA is included in the State's basic financial statements as a discretely presented component unit. NYSERDA's major functions and programs are summarized below. All programs are considered to be special revenue funds.

New York Energy \$martSM program

Pursuant to Orders of the State Public Service Commission (PSC), NYSERDA administers public benefit programs funded by a System Benefits Charge (SBC) on consumers of electricity sold in the State. The Orders provided funding for program activities committed through December 31, 2011, but deferred certain collections until January 2014. NYSERDA is authorized to administer committed program funds until fully expended. The program, named the **New York Energy \$martSM** program, is designed to support certain public benefit programs, including energy efficiency, research and development, environmental protection, and low-income programs.

Energy Efficiency Portfolio Standard

Pursuant to a June 2008 and subsequent Orders, the PSC authorized an Energy Efficiency Portfolio Standard, which provided additional SBC funding for certain energy efficiency programs for program activities committed through December 31, 2011, but deferred certain collections until January 2015. NYSERDA is authorized to administer committed program funds until fully expended. In October 2011, the Commission authorized additional energy efficiency programs from January 1, 2012 through December 2015, with collections for program funding continuing through December 2018.

Technology and Market Development Portfolio

Pursuant to an October 2011 PSC Order, the Technology and Market Development Portfolio was established, with continued funding from the SBC for program activities through December 31, 2016, with program funding collections scheduled through December 2017. The portfolio's mission is to test, develop, and introduce new technologies, strategies and practices that build the statewide market infrastructure to reliably deliver clean energy to New Yorkers.

Renewable Portfolio Standard

Pursuant to a September 2004 and subsequent Orders, the PSC adopted a policy of increasing the percentage of electricity used by retail consumers in New York State, that is derived from renewable resources to at least 30 percent by 2015. The Commission adopted a Renewable Portfolio Standard (RPS) that sets annual, incremental, renewable energy targets for the years 2006 through 2015; requires the use of financial incentives to encourage the development and operation of renewable generation facilities; and adopts a central procurement model to be administered by NYSERDA. It is funded with a non-bypassable wires charge on certain customers of each of the State's investor-owned utilities scheduled through October 2024.

Energy Research & Development

The goals of this program are to promote energy efficiency, encourage economic development, expand the use of New York State's indigenous and renewable energy resources, and reduce or mitigate adverse environmental effects associated with energy production and use. Base funding for the program comes from State appropriations that are financed by an assessment on the intrastate gas and electricity sales of the State's investor-owned utilities and from other sources, including annual contributions from the New York Power Authority (NYPA) and the Long Island Power Authority (LIPA).

Energy Efficiency Deployment

NYSERDA provides financial and technical assistance to help businesses and institutions assess and implement cost-saving energy efficiency measures; help public and private fleets convert to alternative-fuel vehicles, and provides technical training to public and private building owners, helping them improve energy and environmental efficiency. These programs also strive to provide affordable energy and a cleaner environment for all New

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**Notes to Basic Financial Statements
March 31, 2013**

Yorkers, including low-income residents, by increasing public awareness of energy efficiency's multiple benefits, providing residential building performance services, and making energy-efficient appliances and other products more widely available to consumers. These activities are primarily funded through various third party reimbursements and federal energy grants, including five active awards under the American Recovery and Reinvestment Act, or ARRA. Grant funding is received on a reimbursement basis, requires funds to be expended within three years of award, and include requirements for compliance with a number of federal regulations and reporting requirements.

Con Edison System-Wide Demand Reduction

This program, administered by NYSERDA pursuant to a March 2005 and subsequent Orders of the PSC, provided funding of up to \$122.1 million for NYSERDA to implement electric energy demand reductions in Con Edison's service territory over a four-year period ending March 2009, with a goal of achieving 150 megawatts of demand reductions. The terms of the Orders require NYSERDA to return to Con Edison any monies no longer committed, until such time as all retained funds are fully expended. As of March 31, 2013 NYSERDA has recorded \$2.5 million of unencumbered funds as a refund payable to Con Edison, which will be paid during the fiscal year beginning April 1, 2013.

Regional Greenhouse Gas Initiative (RGGI)

The Regional Greenhouse Gas Initiative, or RGGI, is an agreement among nine Northeastern and Mid-Atlantic States to reduce greenhouse gas emissions from power plants. The RGGI states (Participating States) have committed to cap and then reduce the amount of carbon dioxide that certain power plants are allowed to emit, limiting the region's total contribution to atmospheric greenhouse gas levels. The Participating States have agreed to implement RGGI through a regional cap-and-trade program whereby the Participating States have agreed to auction annual regional emissions. Rules and regulations promulgated by the NYS Department of Environmental Conservation (DEC) call for NYSERDA to administer periodic auctions for annual emissions. Pursuant to these regulations, the proceeds will be used by NYSERDA to administer energy efficiency, renewable energy, and/or innovative carbon abatement programs, and to cover the costs to administer such programs.

Green Jobs-Green New York (GJGNY)

GJGNY is a Statewide program created by legislation enacted in October 2009 to promote energy efficiency retrofits in residential, multifamily, small business and not-for-profit buildings, and authorizes NYSERDA to establish innovative financing approaches through revolving loan funds to finance such projects. The program will also support sustainable community development and create opportunities for green jobs. The legislation funded the program with \$112 million from RGGI auction proceeds and restricts the use of interest earnings and revolving loan proceeds for additional programmatic spending.

Clean Air Interstate Rule (CAIR)

The Clean Air Interstate Rule, or CAIR, is an environmental program administered by DEC, designed to reduce NO_x and SO_x emissions through an emissions allowance cap-and-trade regime. NYSERDA sold allowances allocated by DEC to the Energy Efficiency and Renewable Energy Technology Account and is applying the proceeds to support programs that encourage and foster energy efficiency measures and renewable energy technologies, specifically multi-year support for the New York Battery and Energy Storage Technology Consortium (NY-BESTTM), an industry-focused coalition working to build a vibrant, world-class, advanced battery, and energy storage sector in New York.

Energy Analysis

Through this program, NYSERDA provides objective and credible analyses of energy issues to various stakeholders. The program also includes activities for energy related emergency planning and response, and support for State energy planning. These program activities are funded primarily by a State assessment on the intrastate gas and electricity sales of the State's investor-owned utilities.

Furthermore, Energy Analysis staff provide oversight activities pursuant to the State Low-Level Radioactive Waste (LLRW) Management Act of 1986, whereby NYSERDA is responsible for ultimately constructing and operating

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**Notes to Basic Financial Statements
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the State's LLRW disposal facilities, collecting information, and providing regular reports to the Governor and Legislature on LLRW generation in the State. These activities are funded annually by State Appropriations through a sub-allocation from the New York State Department of Health.

NYSERDA is also responsible for coordination of nuclear material matters, including serving as the State liaison with the Nuclear Regulatory Commission.

West Valley

NYSERDA manages, on behalf of the State, the Western New York Nuclear Service Center (West Valley), the site of a former plant for reprocessing used nuclear fuel. Through 1972, the former plant operator, Nuclear Fuel Services, Inc., generated as a by-product of its reprocessing operations, more than 600,000 gallons of liquid, high-level radioactive waste, which were stored at the site. In 1980, Congress enacted the West Valley Demonstration Project Act (West Valley Act). Pursuant to the West Valley Act, the U.S. Department of Energy (DOE) is carrying out a demonstration project to: (1) solidify the liquid high-level radioactive waste at West Valley; (2) transport the solidified waste to a permanent federal repository; and (3) decontaminate and decommission the reprocessing plant and the facilities, materials, and hardware used in the project.

NYSERDA also maintains, on behalf of the State, the State-Licensed Disposal Area (SDA), a shut-down commercial low-level radioactive waste disposal facility at West Valley. NYSERDA is evaluating how to remediate and close this facility in accordance with regulatory requirements.

STEP (Saratoga Technology + Energy Park)

NYSERDA owns, on behalf of the State, a 280 acre parcel of land in Malta (Saratoga County), New York. The site, once used for rocket and weapons-testing programs and space-research activities, and later subject to certain remediation measures under a March 1998 Consent Decree as a "Superfund" site, was designated in 2001 as a business park devoted to the development of new, clean energy technologies. NYSERDA owns and operates a building on the site which is leased to various private company tenants.

Bond Financing

As part of its Bond Financing Program, NYSERDA issues bonds and notes for participating gas and electric utility companies and other private purpose users to finance certain energy-related projects. This program permits a private enterprise to obtain the benefits of tax-exempt financing for projects that qualify under NYSERDA's enabling statute and under relevant provisions of the Internal Revenue Code.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The basic financial statements include government-wide financial statements and governmental fund financial statements. The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities, and report overall information on NYSERDA without displaying individual funds. These statements exclude information about fiduciary activities where NYSERDA holds assets in a trustee or agency capacity for others since such assets cannot be used to support NYSERDA's own programs.

The Fund financial statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances and report information concerning major funds:

New York Energy \$mart - this fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for the **New York Energy \$martSM** program.

Energy Efficiency Portfolio Standard - this fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for the Energy Efficiency Portfolio Standard program.

Technology and Market Development Portfolio - this fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for the Technology and Market Development Portfolio program.

Renewable Portfolio Standard - this fund accounts for the proceeds of specific revenue sources that are

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legally restricted to expenditure for the Renewable Portfolio Standard program.

RGGI – this fund accounts for the specific auction proceeds that are legally restricted to expenditure for the Regional Greenhouse Gas Initiative program.

Other Programs - these funds account for all of NYSERDA's activities, except those reported in one of the other funds.

Assets held by NYSERDA in a fiduciary capacity for others are reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. NYSERDA's fiduciary funds include: (1) funds held for reimbursement to the State for costs associated with the Low-Level Radioactive Waste Management Act of 1986; (2) funds that, pursuant to a Cooperative Agreement, must be turned over to the U.S. Department of Energy upon delivery of the solidified high level radioactive waste from West Valley to a permanent federal disposal repository to provide for perpetual care and management of the waste; and (3) funds held in an irrevocable trust maintained by a third party trustee to receive employer contributions for NYSERDA's health insurance premiums for benefits provided to NYSERDA employees and/ or their eligible spouses and dependent children after active employment ends (postemployment).

The basic financial statements include certain prior-year summarized comparative information in total, but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NYSERDA's financial statements for the year ended March 31, 2012, from which the summarized information was derived.

(b) Basis of accounting

The Statement of Net Position, Statement of Activities, Statement of Fiduciary Net Position, and Statement of Changes in Fiduciary Net Position are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues resulting from exchange transactions are recognized when the exchange takes place. Revenues resulting from non-exchange transactions, such as program funding received in the form of grants, contributions and State appropriations, are recognized when all eligibility requirements (if any) have been met.

NYSERDA's administrative overhead charges are included as program direct expenses in the Statement of Activities.

Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available (expected to be collected in the next twelve months).

(c) Investments

Investments are recorded at fair value, which reflects quoted market prices for U.S. government obligations, and amortized cost for all other investments.

(d) Capital Assets

Generally, assets with a cost of more than \$2,500 and an estimated useful life in excess of two years are capitalized and reported at historical cost in the government-wide financial statements. Depreciation is calculated using the straight line method over the estimated useful life of the capital assets ranging from three to 50 years and reported in the Statement of Activities. Capital asset purchases are recorded as expenditures in the governmental funds financial statements.

(e) Deferred Revenue

Deferred Revenue consists of funds received in advance of revenue recognition conditions having been met.

(f) Compensated Absences

NYSERDA employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated vacation leave up to the equivalent of 45 days, and sick

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leave up to a maximum of five days. Retired employees may use additional accumulated sick leave to pay for the employee share of health insurance premiums.

NYSERDA's accrual for compensated absences, included in the Statement of Net Position amount for long-term liabilities, includes fringe benefits on compensated absences and estimated costs to use employee sick leave for post-retirement health benefits. Compensated absences are not accrued in the governmental funds financial statements.

(g) New York State Assessments

New York State Assessments for the year ended March 31, 2013 consisted of \$11,640,909 in fees paid to the State under Section 2975 of the Public Authorities Law (Governmental Cost Recovery System) for general governmental services, and \$913,000 paid to the state under a budget bill pursuant to Article VII of the New York State Constitution.

(h) Net Position Restricted for Specific Programs

NYSERDA administers certain programs on behalf of the State Public Service Commission and others whereby funds are provided at program inception or on a fixed payment schedule over the program duration, but the terms of the program sponsor or enabling legislation limit the use of funds to certain program purposes. Frequently, the collection and recording of revenues does not occur in the same accounting period as the expenditure of such funds, and the difference is reported as Net Position Restricted for Specific Programs on the Statement of Net Position.

Following is a summary of Restricted Net Position and related commitments as of March 31, 2013:

| <u>FUNCTION/PROGRAM</u> | <i>(Amounts in thousands)</i> | | | |
|---|--------------------------------------|--|-----------------------------|-----------------------------|
| | Restricted Net <u>Position</u> | Contractual Obligations less Accounts Payable & Accrued <u>Expenses</u> | Pre- <u>Encumbrances</u> | Total <u>Commitments</u> |
| New York Energy \$mart | \$184,310 | 161,109 | 18,522 | 179,631 |
| Energy Efficiency Portfolio Standard | 100,476 | 184,422 | 219,746 | 404,168 |
| Technology and Market Development Portfolio | 168,359 | 21,963 | 101,139 | 123,102 |
| Renewable Portfolio Standard | 338,118 | 696,840 | 440,381 | 1,137,221 |
| Energy Research and Development | 27,434 | 19,825 | 16,369 | 36,194 |
| Energy Efficiency Deployment | 15,340 | 16,788 | 4,144 | 20,932 |
| Con Edison System-Wide Demand Reduction | 11,518 | 10,641 | - | 10,641 |
| RGGI | 168,193 | 28,320 | 30,214 | 58,534 |
| GJGNY | 90,907 | 11,316 | 9,855 | 21,171 |
| CAIR | 18,796 | 9,042 | 2,212 | 11,254 |
| Energy Analysis | 492 | 519 | - | 519 |
| West Valley | <u>5,541</u> | <u>6,796</u> | <u>330</u> | <u>7,126</u> |
| Total | <u>\$1,129,484</u> | <u>1,167,581</u> | <u>842,912</u> | <u>2,010,493</u> |

Pre-encumbrances consist of planned funding for contracts awarded and under negotiation; and planned funding under active development through open solicitations with upcoming proposal due dates.

The outstanding contractual commitments in excess of Restricted Net Position under certain Functions/Programs will be funded from future scheduled collections and reimbursements.

(i) Adoption of New Accounting Pronouncement

For the fiscal year ended March 31, 2013, NYSERDA implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their

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effects on a government's net position.

Deferred outflows of resources and deferred inflows of resources are defined as consumptions or acquisitions of net assets in one period that are applicable to future periods, and are distinguished from assets and liabilities. Net position is defined as the residual of all other elements presented in a statement of financial position, and represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. NYSEDA does not have any assets or liabilities that were required to be reclassified and reported as deferred outflows of resources or deferred inflows of resources upon implementation of this Statement. The impact on NYSEDA's Basic Financial Statements was limited to replacing "Net Assets" with "Net Position", and "Invested in capital assets, net of related debt" with "Net investment in capital assets".

(j) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(3) CASH AND INVESTMENTS

Pursuant to Public Authorities Law Section 1859(1), the Commissioner of the New York State Department of Taxation and Finance serves as fiscal agent for NYSEDA's cash and investments, maintaining such funds on NYSEDA's behalf and implementing investments subject to the Department's policies and with direction and authorization from NYSEDA. NYSEDA has a written investment policy that applies to all its investments. The policy permits deposits with financial institutions approved by the fiscal agent and permits investments in: certificates of deposit of bank or trust companies located in New York State; obligations of New York State and the United States government and certain of their agencies; repurchase agreements subject to certain limitations; and money market funds subject to certain limitations.

The following schedule presents cash and investments as of March 31, 2013 (except for Other Postemployment Benefits within Fiduciary Funds, which is as of December 31, 2012).

(Amounts in thousands)

| | <u>NYSEDA Funds</u> | | | <u>Fiduciary Funds</u> | | |
|-------------------------|---------------------|-------------------|---|------------------------|-------------------|---|
| | <u>Fair Value</u> | <u>% of Total</u> | <u>Weighted Average Maturity (months)</u> | <u>Fair Value</u> | <u>% of Total</u> | <u>Weighted Average Maturity (months)</u> |
| Cash and money market | \$28,522 | 2.6 | n/a | \$655 | 1.2 | n/a |
| Certificates of deposit | 136 | <0.1 | 5.7 | - | - | - |
| Mutual funds | - | - | - | 6,134 | 10.9 | n/a |
| Exchange traded funds | - | - | - | 16,638 | 29.6 | n/a |
| U.S. Treasury Bills | 33,382 | 3.1 | 1.3 | 4,139 | 7.4 | 0.4 |
| U.S. Treasury Strips | <u>1,019,130</u> | <u>94.3</u> | <u>23.0</u> | <u>28,619</u> | <u>50.9</u> | <u>28.9</u> |
| Total | <u>\$1,081,170</u> | <u>100.0%</u> | <u>22.3</u> | <u>\$56,185</u> | <u>100.0%</u> | <u>25.3</u> |

Following is a summary of cash and investments of NYSEDA Funds by funding source and related contractual commitments as of March 31, 2013 (excludes Fiduciary Funds):

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| <u>Funding source</u> | <u>Cash and Investments</u> | <u>Contractual Obligations</u> | <u>Pre- Encumbrances</u> | <u>Total Commitments</u> |
|---|---------------------------------|------------------------------------|------------------------------|------------------------------|
| New York Energy Smart (SBCIII) | \$195,370 | 173,993 | 18,522 | 192,515 |
| Energy Efficiency Portfolio Standard | 20,067 | 200,839 | 219,746 | 420,585 |
| Technology and Marketing Development | 162,902 | 23,190 | 101,139 | 124,329 |
| Renewable Portfolio Standard | 353,520 | 713,241 | 440,381 | 1,153,622 |
| Research and Development/Operating | 57,044 | 36,583 | 17,150 | 53,733 |
| Energy Efficiency Deployment | 16,524 | 19,139 | 4,144 | 23,283 |
| Con Edison System-Wide Demand Reduction | 13,651 | 10,723 | - | 10,723 |
| RGGI | 178,255 | 32,637 | 30,214 | 62,851 |
| GJGNY | 64,428 | 13,582 | 9,855 | 23,437 |
| CAIR | 19,409 | 9,655 | 2,212 | 11,867 |
| Total | \$1,081,170 | 1,233,582 | 843,363 | 2,076,945 |

Interest Rate Risk. NYSERDA investment policies limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities are selected based on anticipated cash flow needs.

The NYSERDA OPEB Trust's risk tolerance is understood by the Plan Administrator such that achieving the Plan's investment objectives is not guaranteed and there will be time periods for which these objectives will not be met. The Plan Administrator also recognizes that some risk must be assumed to achieve the Trust's long-term investment objectives and accepts the inevitable fluctuations in returns that will occur. While it is understood that a certain level of risk is expected in the Trust's portfolio, the ability to withstand short and intermediate term variability was specifically considered in the development of the Investment Policy Statement risk tolerances.

Credit Risk. Money market fund investments consist of non-rated funds whose investments are restricted to U.S. government obligations.

The Trust's investment policy places limitations on the concentration of investments in certain industries, with certain companies, and among asset classes and within investment policy ranges.

Concentration of Credit Risk. NYSERDA's investment policy limits investments with any single eligible banking institution to no more than 35% of its total investment portfolio, except as otherwise required by any policies and practices of the Commissioner of Taxation and Finance. As of March 31, 2013, NYSERDA did not have any investments with institutions that were individually in excess of 5% of total investments.

Custodial Credit Risk for Deposits. Deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance or deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging institution's trust department or agent, but not in the name of NYSERDA.

In accordance with existing policies and procedures, the Commissioner of the New York State Department of Taxation and Finance, as Fiscal Agent for NYSERDA, monitors deposit balances for the purpose of determining collateralization levels. Collateral sufficient to cover all uninsured deposits is held at the New York State Department of Taxation and Finance's custodial bank.

Custodial Credit Risk for Investments. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of NYSERDA and are held either by the counterparty or the counterparty's trust department or agent, but not in the name of NYSERDA.

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Equity and fixed income investments owned directly by NYSERDA, which trade in the United States (U.S.) markets, are held at our Fiscal Agent's custodian, in separate accounts, in the name of the Comptroller of the State of New York in Trust for NYSERDA. These securities are typically held in electronic form through the Federal Book Entry System and by the Depository Trust Company (DTC) and its subsidiaries acting as an agent of our Fiscal Agent's custodian bank.

(4) RECEIVABLE FROM NEW YORK STATE

As of March 31, 2013, the amount due from New York State is \$5.8 million, which represents grant receivables and other contractual provisions.

(5) LOANS RECEIVABLE

Loans receivable exist under the Green Jobs-Green New York program to finance energy efficiency retrofits in residential, multifamily, small business, and not-for-profit buildings. The residential component offers unsecured loans originated by a lender using pre-established loan underwriting criteria, which are then purchased or funded by NYSERDA and serviced by a third-party loan servicer. Multifamily and small business/not-for-profit loans are provided through participating lenders with NYSERDA providing 50% of the principal, subject to certain limits, at 0% interest. As of March 31, 2013, 3,018 loans are outstanding and 99.9% of the loan portfolio value is current on payment requirements.

Loans receivable at March 31, 2013 include the following:

(Amounts in thousands)

| | <u>Number of Loans</u> | <u>Loans Outstanding</u> |
|-------------------------------|------------------------|--------------------------|
| Residential Energy Efficiency | 3,010 | \$27,042 |
| Small Business/Not-for-Profit | 4 | 79 |
| Multifamily Building | <u>4</u> | <u>1,529</u> |
| | <u>3,018</u> | <u>\$28,650</u> |

NYSERDA has been allocated \$9,012,581 from a grant received from the U.S. Dept. of Energy for a loan loss reserve or to fund debt service reserve funds in connection with loan-backed bonds which may be issued.

Loans receivable at March 31, 2013 mature as follows:

(Amounts in thousands)

| Fiscal year ending <u>March 31,</u> | Residential Energy <u>Efficiency</u> | Small Business/ Not-for- <u>Profit</u> | Multifamily <u>Building</u> | <u>Total</u> |
|---|--|---|--------------------------------|-----------------|
| 2014 | \$2,078 | 18 | 178 | 2,274 |
| 2015 | 2,179 | 17 | 213 | 2,409 |
| 2016 | 2,240 | 16 | 213 | 2,469 |
| 2017 | 2,167 | 15 | 213 | 2,395 |
| 2018 | 1,957 | 7 | 212 | 2,176 |
| 2019-2023 | 9,424 | 6 | 500 | 9,930 |
| 2024-2028 | 6,968 | = | = | 6,968 |
| 2029-2033 | <u>29</u> | = | = | <u>29</u> |
| Total | <u>\$27,042</u> | <u>79</u> | <u>1,529</u> | <u>\$28,650</u> |

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(6) CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013 was as follows:

(Amounts in thousands)

| | Beginning <u>Balance</u> | <u>Additions</u> | Retirements/ <u>Reclassifications</u> | Ending <u>Balance</u> |
|------------------------------------|-----------------------------|------------------|--|--------------------------|
| Land | \$685 | - | - | 685 |
| Land improvements | 4,658 | 720 | (36) | 5,342 |
| Buildings | 9,381 | - | (399) | 8,982 |
| Machinery and equipment | 10,510 | 793 | (322) | 10,981 |
| Leasehold improvements | <u>567</u> | <u>19</u> | <u>-</u> | <u>586</u> |
| | 25,801 | 1,532 | (757) | 26,576 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | (562) | (175) | 5 | (732) |
| Buildings | (3,950) | (283) | 289 | (3,944) |
| Machinery and equipment | (7,565) | (1,262) | 318 | (8,509) |
| Leasehold improvements | <u>(449)</u> | <u>(59)</u> | <u>-</u> | <u>(508)</u> |
| Capital assets, net | <u>\$13,275</u> | <u>(247)</u> | <u>(145)</u> | <u>12,883</u> |

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended March 31, 2013 was as follows:

(Amounts in thousands)

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>Balance</u> | Amounts Due within <u>One Year</u> |
|---|-----------------------------|------------------|-------------------|--------------------------|--|
| Mortgage note payable | \$232 | - | (232) | - | - |
| Capital lease obligations | 230 | - | (230) | - | - |
| Notes payable | - | 113 | (13) | 100 | 40 |
| Compensated absences | 6,147 | 3,561 | (3,376) | 6,332 | 2,500 |
| Post-employment benefits (see note 11) | <u>-</u> | <u>3,632</u> | <u>(3,632)</u> | <u>-</u> | <u>-</u> |
| Long-term liabilities | <u>\$6,609</u> | <u>7,306</u> | <u>(7,483)</u> | <u>6,432</u> | <u>2,540</u> |

Notes Payable reflects the purchase of a 2012 Chevrolet Volt, financed through Ally Financial, over a period of 12 months at an annual interest rate of 0.0%, as well as the purchase of 8 Xerox copiers under a Xerox payment plan with a term of 60 months, at an annual interest rate of 0.0%.

As of March 31, 2013, future debt service requirements on the Notes Payable is:

(Amounts in thousands)

| Fiscal year ending <u>March 31,</u> | <u>Note Payable</u> | | |
|--|---------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$40 | - | 40 |
| 2015 | 16 | - | 16 |
| 2016 | 16 | - | 16 |
| 2017 | 16 | - | 16 |
| 2018 | <u>12</u> | <u>=</u> | <u>12</u> |
| Total | <u>\$100</u> | <u>=</u> | <u>100</u> |

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(8) DEFINED BENEFIT PENSION PLAN

Nearly all employees of NYSERDA are members of the New York State and Local Employees' Retirement System (System), a cost-sharing, multiple-employer public employee retirement system. The State Comptroller is sole trustee and administrative head of the System. The System issues a publicly available financial report including financial statements and required supplementary information that may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12244.

The System provides retirement benefits, as well as death and disability benefits. Retirement benefits are established by the New York State Retirement and Social Security Law. Retirement benefits, contributory requirements and vesting depend on the point in time at which an employee first joined the System (membership "tier"). Members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan; NYSEDA contributes the entire amount determined to be payable to the System. Personnel who joined the System after July 27, 1976 through January 1, 2010 and who have less than ten years of accredited service are required by law to contribute three percent of their gross salary; NYSEDA contributes the balance payable to the System during that period, and the full amount determined to be payable thereafter. Members who joined the system after January 1, 2010 contribute three percent of their gross salary during the full term of employment. Retirement benefits vest after five to ten years of accredited service, depending on the applicable tier.

NYSEDA's contributions to the System, expressed in dollars and as a percentage of salary, for each of the years ended March 31, 2011 through March 31, 2013 were:

(Amounts in thousands)

| Fiscal year ended <u>March 31,</u> | <u>Contributions</u> | <u>Contribution Rate</u> |
|---------------------------------------|----------------------|--------------------------|
| 2013 | \$4,378 | 10.1%-25.4% |
| 2012 | 4,301 | 12.7 – 21.5% |
| 2011 | 2,948 | 11.3 – 15.3% |

NYSEDA made 100% of the required contribution for each of the years displayed above.

(9) LEASES

NYSEDA has multi-year operating leases expiring May 31, 2016, July 7, 2017, September 30, 2018, September 14, 2013, and September 30, 2013 for office space in West Valley, NY; Buffalo; 15 Columbia Circle, Albany; 210 Washington Ave Ext., Albany; and New York City, respectively. For the year ended March 31, 2013, rental expense for all office facilities was \$876,863.

The following is a schedule by year of future minimum rental payments for NYSEDA's office space as of March 31, 2013:

(Amounts in thousands)

| Fiscal year ending <u>March 31,</u> | |
|--|----------------|
| 2014 | \$696 |
| 2015 | 540 |
| 2016 | 543 |
| 2017 | 408 |
| 2018 | 386 |
| Thereafter | <u>161</u> |
| Total | <u>\$2,734</u> |

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NYSERDA is also the lessor of certain equipment comprising a cooling water structure at the Indian Point Nuclear Power Plant in Buchanan, New York under a lease that expires on March 31, 2017 with annual future minimum lease rental payments of \$999,600 for the fiscal years ending March 31, 2014-2017.

(10) CONTINGENCIES

(a) Western New York Nuclear Service Center

Under the federal West Valley Demonstration Project Act and an implementing Cooperative Agreement between DOE and NYSERDA, the federal government pays 90 percent of the West Valley Demonstration Project (WVDP) costs, and NYSERDA, on behalf of the State of New York, pays the remaining 10 percent. In addition, in 2010, the U.S. District Court for the Western District of New York approved an agreement between New York State and the federal government that resolved most of the claims asserted in a 2006 lawsuit filed by NYSERDA and New York State against the federal government and DOE regarding the financial responsibility for cleaning up certain facilities at West Valley. The agreement defines a specific cost share for the cleanup of a number of facilities that had long been in dispute between NYSERDA and DOE. For example, under this agreement, the federal government will pay a 30 percent share of costs associated with the State Licensed Disposal Area (SDA), and NYSERDA, on behalf of the State, will pay the remaining 70 percent. Remediation costs for the North Plateau Groundwater Plume will be split equally between the State and federal government, and costs for remediating the NRC-Licensed Disposal Area will also be a 50/50 split. The two governments agreed that other facilities are covered by the WVDP Act, such as the Main Process Plant building, and thus the federal government will pay 90% of the cleanup costs.

In January 2010, NYSERDA and DOE issued a final Environmental Impact Statement, which identifies and assesses the potential environmental impacts of a range of reasonable alternatives proposed to meet DOE's responsibilities under the WVDP Act and options for the State of New York, acting through NYSERDA, for management of West Valley. In April and May 2010, respectively, DOE and NYSERDA issued decision documents that formally selected the Phased Decision making alternative for continuing the cleanup. Under Phased Decision making, decommissioning work will be conducted in two phases. During Phase 1, the Main Process Plant building and several other highly contaminated facilities will be removed at an estimated cost of approximately \$1 billion. As the Phase 1 cleanup work is proceeding, DOE and NYSERDA will conduct additional scientific studies to reduce uncertainties in the decisions for the Phase 2 portion of the cleanup. The 2010 EIS state that the Phase 1 work would take 10 years and a cost of approximately \$1 billion based on a federal funding level of \$75 million per year. Since 2010, actual federal funding levels have been closer to \$65 million, and this lower funding level will extend the duration of the phase 1 work to about 15 years and will add about \$100 million to the cost of the work. The Phase 2 decisions, which will be made within 10 years of the Phase 1 decisions- i.e. by May 2020- will address the remaining facilities, including the High-Level Waste Tanks, State-Licensed Disposal Area, NRC-Licensed Disposal Area, and the main body of a groundwater contamination plume. Total costs for completing the Phase 2 work range from \$500 million to \$8.2 billion, and are dependent on the alternative selected for the remaining facilities.

In accordance with Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, no liability has been included in NYSERDA's financial statements as of March 31, 2013 or 2012 for this contingency because NYSERDA expects to continue to be reimbursed from State appropriations for the State's share of the costs of the Demonstration Project, any costs NYSERDA may incur in relation to the SDA, and any other costs allocated to NYSERDA under the agreement resolving the lawsuit referenced above.

(b) Low-Level Radioactive Waste

Pursuant to the Low-Level Radioactive Waste (LLRW) Management Act of 1986, NYSERDA annually assesses licensees of operating nuclear power plants an amount sufficient to reimburse the State for the LLRW disposal facilities development activities of the Departments of Health and Environmental Conservation, and must provide nuclear power plant licensees with a user-fee reduction, when the disposal facilities are operational, equal to the statutory assessments collected plus interest at a fair market rate. During the year ended March 31, 2013, NYSERDA paid, from the agency fund, a total of \$1,745,652 to reimburse the State for such costs pursuant to Public Authorities Law Section 1854-d(2)(a).

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(c) Bond Financing Program

The principal and interest on obligations issued for participating gas and electric utility companies and other private purpose users are payable solely from payments made by participating companies. They are not general obligations of NYSERDA nor do they constitute an indebtedness of or a charge against the general credit of NYSERDA, or cause any monetary liability to NYSERDA. These bonds and notes are not a debt of the State of New York.

The bonds and notes issued bear the name of NYSERDA and the participating company. NYSERDA assigns most of its rights and obligations to a trustee who is responsible for, among other things, disbursing bond and note proceeds and handling principal and interest payments. As of March 31, 2013, all participating companies were current in their debt service payments for these bonds and notes, the principal of which totaled approximately \$3.4 billion.

(d) Risk Management

NYSERDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NYSERDA maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to NYSERDA. NYSERDA has not experienced any reductions in coverage and has not had any insurance settlements exceeding the coverage in the past three years.

(e) Renewable Portfolio Standard (RPS) Program

Pursuant to Orders of the PSC, NYSERDA is the central procurement administrator to manage an incentive-based procurement mechanism to support the development of additional renewable energy resources. The Orders directed each of the State's six investor-owned electric utility companies to collect an RPS surcharge to fund the program through a volumetric charge applied to the delivery portion of customer bills, commencing October 1, 2005. Each utility was directed to establish RPS collection rates sufficient to collect certain amounts specified in the Order for each of the years 2005 through 2024, with any over or under collections being trued up on an annual basis. In the aggregate, future scheduled collections total approximately \$2.24 billion over the remaining 12 year collection period.

Pursuant to requirements of the Order, each utility has entered into a contractual agreement with NYSERDA to make quarterly payments to NYSERDA, continuing through October 31, 2024, based on the annual collection amounts prescribed in the Order. Each utility's payment obligation is fixed and is not adjusted for actual RPS surcharge collections. Procurement contracts entered into by NYSERDA and funded with RPS funds become general obligations of NYSERDA, payable pursuant to such contract terms. NYSERDA intends to ensure that procurement contracts entered into shall not cause amounts payable under such contracts to exceed at any time the amounts due and payable under the funding agreements with the utility companies. As of March 31, 2013, NYSERDA has outstanding contractual obligations totaling approximately \$696.8 million payable at varying dates upon successful operation of the renewable generation facilities, which will be funded in part from RPS surcharge collections to be received in the future pursuant to Order of the PSC.

(f) Regional Greenhouse Gas Initiative

On January 29, 2009, a lawsuit was initiated in State Supreme Court against the Governor, NYSERDA and other State entities, claiming that the RGGI regulations are unlawful and discriminatory. The original parties to the lawsuit as well as others that were joined as parties, including Consolidated Edison, entered into a settlement agreement resolving the litigation that was approved on October 1, 2010 by the court. Under the terms of the settlement, NYSERDA will utilize proceeds from RGGI auctions to meet its obligations to pay Con Edison in accordance with a formula set forth in the settlement agreement. Con Edison, in turn, will use the monies provided by NYSERDA to fund energy efficiency and renewable energy programs with significant carbon reduction potential within its service territory.

NYSERDA has paid Con Edison approximately \$9.7 million to date related to this settlement. The remaining obligation, as recorded in the financial statements under Con Edison payable at March 31, 2013, of \$5.7 million, represents all estimated remaining payments due Con Edison.

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(g) Con Edison System-Wide Demand Reduction and Gas Efficiency Programs

The terms of the Orders for these programs require NYSERDA to return to Con Edison any monies no longer committed, until such time as all retained funds are fully expended. As of March 31, 2013 retained funds subject to possible refund, not including the amount already recorded in the financial statements as Con Edison payable at that date, are \$2.5 and \$0.5 million, respectively for the Demand Reduction and Gas Efficiency Programs. Any future refunds due would be recognized as program expenditures in the fiscal year the related commitments are disencumbered.

(11) POSTEMPLOYMENT HEALTHCARE BENEFITS

The New York Civil Service Law, Section 163(2), provides for health insurance coverage for retired employees of New York State including their spouses and dependent children. The law extends to public benefit corporations. NYSEDA maintains a single-employer defined benefit plan (the Plan) providing this benefit to eligible retirees and/or their spouses and dependent children. Eligibility is determined by membership in the New York State and Local Employees' Retirement System, enrollment in the New York State Health Insurance Program at the time of retirement and the completion of a minimum number of years of service as required by the employee's membership tier in the retirement system. The plan provides that retired employees pay the same percentage share of the health insurance premiums as that charged for active State management confidential employees. Plan members presently contribute 16% of the premium for individual coverage and 31% of the incremental premium for family coverage. NYSEDA is billed by the New York State Department of Civil Service monthly for pay-as-you-go funding requirements, however payments are made from an irrevocable Other Postemployment Benefit (OPEB) Trust account established in March 2010. The purpose of the OPEB Trust is for the accumulation of funds to pay future benefit costs. The Trust's funds are held by a third-party trustee. The Trust is managed by a five-member Plan Administrator, consisting of NYSEDA officers, in consultation with the Chair of the Audit and Finance Committee or his or her designee. As of March 31, 2013, the Authority has contributed \$21.7 million to the OPEB Trust to fully fund the actuarially determined accumulated OPEB obligation as calculated under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As of March 31, 2013, the value of the OPEB Trust investments totals \$25.2 million.

The Authority's OPEB Trust is recorded as a fiduciary fund within NYSEDA's financial statements and reflects the Trust's legal fiscal year-end of December 31.

NYSEDA's annual other postemployment benefit (OPEB) expense for the year ended March 31, 2013 is calculated based on the annual required contribution (ARC) of NYSEDA. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities over 30 years.

The following table summarizes NYSEDA's annual OPEB expense for the year ended March 31, 2013, the amount contributed to the Plan, and changes in NYSEDA's OPEB obligation:

(Amounts in thousands)

| | |
|--|----------------|
| Annual required contribution | |
| Normal cost | \$2,230 |
| Amortization of unfunded actuarial accrued liability | <u>1,402</u> |
| Total annual OPEB cost | 3,632 |
| Contributions made | <u>(3,632)</u> |
| Change in net OPEB obligation | - |
| Net OPEB obligation- beginning of year | <u>-</u> |
| Net OPEB obligation- end of year | <u>\$ -</u> |

**NEW YORK STATE ENERGY
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(A Component Unit of the State of New York)**

**Notes to Basic Financial Statements
March 31, 2013**

NYSERDA's annual OPEB cost amounted to \$3,631,900, \$3,906,000, and \$3,839,700 for the years ended March 31, 2013, 2012, and 2011, the percentage of annual OPEB cost contributed to the Plan was 100%, 100%, and 100%, respectively, and the net OPEB obligation was \$0 for each of the years ended March 31, 2013, 2012, and 2011.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of NYSERDA are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the Plan as understood by NYSERDA and Plan members and include the types of benefits provided at the time of valuation and the historical pattern of sharing benefit costs between NYSERDA and Plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future.

The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following significant assumptions were made in the actuarial valuation:

Retirement age for active employees – based on assumptions used under the New York State and Local Employees' Retirement System (ERS), since eligibility for NYSERDA employees covered under this plan is based on membership in that system. The ERS assumptions were based on extensive analysis of their covered populations.

Marital status – Assumed 80% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

Mortality – RP 2000 mortality tables issued by the Society of Actuaries.

Turnover – Rates were based on age and length of service for the first ten years and age thereafter as the basis for assigning active members a probability of remaining employed until the assumed retirement age.

Healthcare cost trend rate – The expected rate of increase in healthcare premiums was based on projections developed by the actuary's healthcare specialists. A rate of 7.4% initially, reduced to an ultimate rate of 4.6% after seventy years was used.

Health insurance premiums – 2012 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Investment return – As of March 2013, Plan benefits are pre-funded in a segregated Trust, and a discount rate of 6.5% was used, representing the long-term earnings potential of investments in the Trust.

The actuarial cost method used was the projected unit credit method. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a period of 30 years. The remaining amortization period at March 31, 2013 was 24 years.

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**Notes to Basic Financial Statements
March 31, 2013**

As of March 31, 2013, there were 68 retirees and dependent survivors actively receiving benefits and 298 active plan members.

The plan also provides that the dollar value, subject to certain limitations, of member's accumulated sick leave credits at the time of retirement may be used to offset the portion of health insurance premiums paid by retirees. NYSERDA's estimated liability associated with sick leave credits is recorded as a Compensated Absence within "Other long-term liabilities" in accordance with the requirements of GASB Statement No. 16. The Trust does not accumulate resources for the purpose of paying this portion of the health insurance premiums, nor does it pay any benefits for this purpose. NYSERDA's liability for that portion of the premiums is not included in the actuarially determined liabilities of the Plan or the ARC or OPEB expense calculations.

The cost of third-party administrators, actuarial reports, audits and similar costs incurred exclusively for the Trust are paid from resources of the Trust. Routine daily administrative costs of administering the benefit plans, accounting services and similar costs are absorbed by NYSERDA.

The Trust has no legally required reserves.

(12) INTERFUND BALANCES AND TRANSFERS

The balances reflected in Due to Other Funds and Due from Other Funds reflect the timing difference of when expenditures are incurred and when interfund reimbursement occurs. These balances are expected to be liquidated within a year.

Transfers between funds were made as directed by various Public Service Commission Orders.

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**Required Supplementary Information (Unaudited)
March 31, 2013**

Schedule of Funding Progress for Other Postemployment Benefits

(Amounts in thousands)

| <u>Actuarial Valuation Date</u> | <u>Fiscal Year Ending</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (b)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u> |
|---|-------------------------------|--|--|--|-----------------------------------|------------------------------------|---|
| 4/1/2012 | 3/31/2013 | \$19,891 | \$39,388 | \$19,497 | 50.5% | \$24,282 | 80.3% |
| 4/1/2011 | 3/31/2012 | * | * | * | * | * | * |
| 4/1/2010 | 3/31/2011 | \$10,285 | \$33,921 | \$23,636 | 30% | \$24,244 | 97.5% |
| 4/1/2009 | 3/31/2010 | \$0 | \$29,131 | \$29,131 | 0% | \$23,404 | 124.5% |

**Valuation was not performed at this date.*

See accompanying independent auditors' report.