



ANNUAL INVESTMENT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2014



Table of Contents:

Section I	Annual Investment Report
Section II	Investment Guidelines (Appendix A)
Section III	Auditors' Report (Appendix B)
Section IV	Summary of Holdings & Income (Appendix C)

SECTION I

LONG ISLAND POWER AUTHORITY

ANNUAL INVESTMENT REPORT

Year Ended December 31, 2014

A. Investment Guidelines

LIPA may amend its existing Investment Guidelines, to reflect the Authority's current investment needs and practices. They incorporate (1) legal and statutory investment constraints imposed by New York State, (2) the Authority's General Bond Resolution and (3) the Decommissioning Trust Agreements, and. The Investment Guidelines were last approved by the Board of Trustees on January 24, 2013 with no changes at that time. The Investment Guidelines will be amended on March 26, 2015.

The Guidelines detail LIPA's policy with respect to the purchase and sale of investments, and specify LIPA procedures for monitoring, maintenance, accounting and reporting of LIPA's investments and investment activity. Guidelines are attached in Section II as Appendix A.

During the 12-month period ended December 31, 2014 the Authority invested in Corporate Notes, Commercial Paper rated A-1 by Standard and Poor's and P-1 by Moody's, U.S. Government Securities including Treasuries and Agencies, and Money Market Funds.

B. Results of Annual Investment Audit Report

The "Independent Accountants' Report on Investment Compliance" issued by LIPA's auditors, KPMG LLP, is attached hereto in Section III as Appendix B. This report is also filed with the Basic Financial Statements for the year end December 31, 2014.

C. Investment Income Record

Attached hereto in Section IV as Appendix C is a summary of LIPA Investments by security type as of December 31, 2014. Also attached in Section IV is a summary of investment income.

D. Total Fees, Commissions, or Other Charges Paid to Investment Bankers, Brokers, Agents, Dealers and Advisers Rendering Investment Associated Services

The majority of LIPA's investments are handled through the services of an external Investment Manager who provides cash management and advisory services to the Authority. The fee for these services is based on the average market value of the assets under supervision each month and paid quarterly. For the year 2014 LIPA incurred charges of approximately \$87,000 in connection with these services.

Any additional short term investments that are handled internally are placed with dealers or banks handling institutional accounts. It is the general practice in the financial community for these dealers and banks to include the commission or transaction fee, if any, in their purchase price. There is no fixed or standard formula to segregate the commission from the total purchase price and sale proceeds.

LIPA utilizes the services of an external investment manager for the investment of its Decommissioning Trust. For 2014 approximately \$119,000 in fees were incurred for these services. Custody and trustee fees are directly deducted from the Trust and not included in this report as they are offset against investment income which is reinvested in the Trust to meet eventual decommissioning obligations.

LIPA did not pay any other fees or charges to investment bankers, brokers, agents, dealers or advisers in connection with its year 2014 investment activities.

SECTION II

EXHIBIT B

LONG ISLAND POWER AUTHORITY

INVESTMENT GUIDELINES

January 24, 2013

TABLE OF CONTENTS

1. OVERVIEW OF INVESTMENT GUIDELINES	3
1.1. Definitions	3
1.2. Purpose and Scope.....	3
1.3. Management of Investment Program	3
1.3.1. Roles and Responsibilities	3
1.3.2. Standard of Prudence.....	4
1.3.3. Conflict of Interest.....	4
1.3.4. Review, Amendments, Updates and Revisions	4
2. INVESTMENT MANAGEMENT OBJECTIVES	4
2.1. Investment Objectives	4
2.2. Authorized Investment Vehicles.....	5
2.2.1. U. S. Government Obligations.....	5
2.2.2. Repurchase Agreements.....	5
2.2.3. Bankers' Acceptances.....	6
2.2.4. Commercial Paper	6
2.2.5. Corporate Notes, Master Notes and Asset-Backed Securities	6
2.2.6. Certificates of Deposit	6
2.2.7. Registered Investment Companies (Mutual Funds)	6
2.2.8. Investment Contracts	6
2.2.9. Municipal Obligations	6
2.3. Variable Rate Notes.....	7
2.4. Portfolio Diversification	7
2.5. Investment Maturity.....	7
2.6. Prohibited Investment Vehicles	8
2.7. Downgrades.....	8
2.8. Process for Obtaining Approval for New Instruments.....	8
2.9. Nuclear Decommissioning Trust Funds	8
3. OPERATING PARAMETERS AND CONTROLS	9
3.1. Authorized Officers and Employees.....	9
3.2. Competitive Selection	9
3.3. Compliance Audit	9
3.4. Written Contracts and Confirmations.....	10
3.5. Safekeeping and Custody	10
3.6. Internal Controls	10
3.7. Notification of Violations Concerning Guidelines.....	101
4. QUALIFIED FINANCIAL INSTITUTIONS	11
4.1. Qualifications for Brokers, Dealers and Agents.....	11
4.2. Qualifications for Investment Advisors/Managers	11
4.3. Qualifications for Custodial Banks	11
4.4. Ongoing Disclosure.....	11
4.5. Affirmative Action	12
5. REPORTING	12
5.1. Management Reporting	12
5.2. Performance Reporting.....	12
6. APPLICABILITY	13
APPENDIX A – NDTF INVESTMENT PROVISIONS	14
APPENDIX B - OPERATING CONTROLS	16
APPENDIX C – RATING DEFINITIONS	19

1. Overview of Investment Guidelines

1.1. Definitions

“Authority” means the Long Island Power Authority, a corporate municipal instrumentality of the State of New York, established pursuant to Chapter 517 of the Laws of 1986 of the State of New York.

“Financing Documents” means the Electric System General Bond Resolution, adopted May 13, 1998 (the “General Bond Resolution”), the Electric System General Subordinated Revenue Bond Resolution, adopted May 20, 1998 (“Subordinated Bond Resolution”), the Reimbursement Agreement, dated as of May 1, 2003 among the Long Island Power Authority and WestDeutsche Landesbank Gironzentrale and various other banks named therein, the Reimbursement Agreement dated as of May 1, 2003 among the Long Island Power Authority and JPMorganChase Bank and various other banks named therein, and any other agreement with the issuer of any Credit Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution) or any Liquidity Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution), in each case as the same may be amended and supplemented from time to time.

“Investment Funds” means monies and financial resources available for investment by the Authority and its subsidiary.

“Investment Securities” means any or all of the investment obligations described in Section 2.2 hereof.

“Rating Agencies” means Standard & Poor’s Corporation, Moody’s Investor Service, and Fitch Ratings.

“State” means the State of New York.

1.2. Purpose and Scope

The purpose of these guidelines is to establish the parameters, responsibilities, and controls for the investment and the management of Investment Funds. These guidelines have been adopted by, and can be changed only by, the Board of Trustees.

These guidelines shall govern the investment and reinvestment of Investment Funds and the sale and liquidation of Investment Securities, as well as the monitoring, maintenance, accounting, reporting, and internal controls by and of the Authority with respect to such investment and reinvestment of Investment Funds and sale and liquidation of Investment Securities.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

1.3. Management of Investment Program

1.3.1. Roles and Responsibilities

It shall be the responsibility of the Chief Financial Officer to ensure that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in New York and the guidelines established by the State Comptroller’s Office and the Governmental Accounting Standards Board (GASB). The Executive Director of Finance, as custodian of the Investment Guidelines, is responsible for ensuring that all aspects of the investment management program are executed in a manner consistent with the Guidelines. A description of operating controls is attached as Appendix B to these Guidelines.

The external auditor will conduct an annual audit of the investment management activity to ensure compliance with the Investment Guidelines by Treasury and the external investment manager. The findings of the audit shall be formally documented and submitted to the Chief Financial Officer and the Authority’s Board of Trustees.

LIPA Investment Guidelines

1.3.2. Standard of Prudence

The standard of prudence to be applied to the investment of the Authority's Portfolio shall be the "Prudent Person Rule" that states:

"Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Authorized Authority officials and employees involved in the investment process acting in accordance with the laws of the State, these guidelines and any other written procedures pertaining to the administration and management of the Investment Funds and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that any negative deviations are reported in a timely fashion to the Chief Financial Officer or another authorized official and that reasonable and prudent action is taken to control and prevent any further adverse developments.

1.3.3. Conflict of Interest

Authority Officers and employees involved in the investment process (Investment Officials) shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officials shall not:

1. accept any money, loan, gift, favor, service, or business or professional opportunity that could influence them in the performance of their official duties;
2. accept any business or professional opportunity when they know there is a reasonable likelihood that the opportunity is being afforded to influence them in the performance of their official duties;
3. enter into any personal investment transactions with the same individual with whom business is conducted on behalf of the Authority; or
4. disclose or use confidential information that is not generally available to the public for their own or another person's financial benefit.

1.3.4. Review, Amendments, Updates and Revisions

The Executive Director of Finance and the Chief Financial Officer will review the Guidelines on an annual basis, or as required, to ensure continued effectiveness of the Investment Guidelines. The Guidelines shall be submitted to the Authority's Board of Trustees annually for review and approval after review by the Finance and Audit Committee. Modifications to the Investment Guidelines may be required as business needs and requirements change. Any amendments must be reviewed and approved by the Chief Financial Officer and submitted to the Board of Trustees for final approval. Subsequent to any modifications to the Investment Guidelines, revised guidelines must be distributed to Authority personnel on the approved distribution list and Financial Institutions described in Section 4.

2. Investment Management Objectives

2.1. Investment Objectives

The Authority's Portfolio shall be managed to accomplish the following hierarchy of objectives:

Legality - The Authority shall comply with all investment guidelines required for public authorities in the State with regards to general investment practices and the management of public funds.

Safety - Next to legality, safety of principal is the foremost objective of the investment program. Investments of the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

LIPA Investment Guidelines

Liquidity - The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the Authority, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

Return - The Authority's portfolio shall be managed in such a fashion as to maximize the return on investments within the context and parameters set forth by the investment objectives stated above.

2.2. Authorized Investment Vehicles

The Authority may invest its Investment Funds in any of the vehicles listed below unless superceded by more restrictive guidelines in any of the Financing Documents.

2.2.1. U. S. Government Obligations

1. **U.S. Treasury Obligations.** Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America;
2. **STRIPS.** Any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest hereof) of the character as described in (1);
3. **Federal Agency Obligations.** Obligations of any agency, subdivision, department, division or instrumentality of the United States of America rated 'Aa3' or higher by Moody's or 'AA-' or higher by S & P; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America rated 'Aa3 or higher by Moody's or 'AA-' or higher by S & P.

2.2.2. Repurchase Agreements

Repurchase Agreements if the following conditions are met:

1. the contract is fully secured by deliverable U.S. Government Obligations as described in Section 2.2.1 having a market value of at least one hundred two percent (102%) of the amount of the obligations principal and interest;
2. a master repurchase agreement or specific written repurchase agreement governs the transaction;
3. the repurchase agreement has a term to maturity of no greater than thirty (30) days;
4. the repurchase agreement is transacted on a delivery versus payment basis;
5. the securities are held free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee; the Trustee shall have received written confirmation from such third party that it holds such securities free and clear of any lien as agent for the Trustee; and such third party is either
 - a. a Federal Reserve Bank, or
 - b. a bank which is a member of the Federal Deposit Insurance Corporation and which (1) has its principal place of business within the State, (2) has combined capital and surplus of more than \$1 billion, and (3) has a long-term debt rating of "Aa3" or higher by Moody's or "AA-" or higher by S & P;
6. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority;
7. the Executive Director of Finance or appointed agent will value the collateral daily, and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated.);
8. substitutions of collateral will be permitted only with advance written approval of the Chief Financial Officer;
9. The Authority will enter into repurchase agreements only with reputable firms that have a short-term debt rating of "A-1" or higher from one or more Nationally Recognized Statistical Rating Organizations ("NRSOs") that rate the issuer (split-rated paper is not permitted) and are:
 - a. primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have \$25 billion in assets and \$350 million in capital,
 - b. a bank, savings bank or savings and loan association having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal

LIPA Investment Guidelines

- Reserve System, or
- c. diversified securities broker-dealers who are members of the National Association of Securities Dealers having \$5 billion in assets and \$350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency.
10. no more than 10% or \$50 million, whichever is less, of the Investment Funds will be invested with any single repurchase agreement counterparty.

2.2.3. Reserved

2.2.4. Commercial Paper

Unsecured short-term debt (including asset-backed commercial paper) of corporations incorporated under the laws of the United States or a state if the following conditions are met:

1. the maturity is no greater than 270 days;
2. the total holdings of an issuer's paper does not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper; and
3. the short-term debt rating is at least "A1" by S & P and "P-1" by Moody's.

2.2.5. Corporate Notes, Master Notes and Asset-Backed Securities

Investment grade debt obligations issued by corporations that are incorporated and operating under the laws of the United States or a state, which meet the following requirements:

1. the final maturity is no greater than 2 years at the time of purchase,
2. has long term debt ratings of "AA-" or higher by S & P and "Aa3" or higher from Moody's at the time of purchase for traditional corporate notes and master notes;
3. has a long-term debt rating of "AAA" or equivalent by S & P and Moody's at the time of purchase for asset-backed securities; and
4. the obligation has a "hard-bullet" or guaranteed final maturity date.

2.2.6. Certificates of Deposit

Certificates of Deposit issued by a commercial bank with its primary place of business in the State if the following requirements are met:

1. the bank is a member of the Federal Deposit Insurance Corporation and has combined capital and surplus of more than \$1 billion;
2. the bank has a long-term debt rating of "AA-" or higher by S & P or "Aa3" or higher by Moody's.

2.2.7. Registered Investment Companies (Mutual Funds)

Shares in open-end, no-load money market mutual funds provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. 270.2a-7 and invest exclusively in obligations permitted herein. The fund must be rated 'AAAm' or 'AAAm-G' or better by Standard & Poor's Corporation, or the equivalent by another NRSRO. The fund must also be properly registered for sale in the State.

2.2.8. Investment Contracts

Investment agreements or guaranteed investment contracts (GICs) with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time the agreement or contract is entered into) of either "Aa3" or higher by Moody's or "AA-" or higher by S & P.

2.2.9. Municipal Obligations

Municipal debt obligations provided that the payment of principal and redemption price, if any, and interest is irrevocably secured by U.S. Government Obligations as described in Section 2.2.1. The secured obligations must be deposited in an

LIPA Investment Guidelines

escrow arrangement, which is irrevocable pledged to the payment of such municipal obligations, or any other municipal obligation rated either "Aa3" or higher by Moody's or "AA-" or higher by S & P.

2.3. Variable Rate Notes

The use of variable rate notes (VRNs) is considered to be prudent in the management of the Authority's Portfolio provided that the following criteria are met:

1. the final maturity (at the time of purchase) is no greater than three years for obligations of a Federal Agency and no greater than two years for corporate obligations or asset-backed securities;
2. the rate on the VRN resets no less frequently than quarterly;
3. the rate on the VRN resets with a frequency that produces a close tracking with money market rates;
4. the VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill or LIBOR, that correlates very highly (95% or greater) with overall changes in money market rates even under wide swings in interest rates;
5. any cap on the interest rate is at least 10% (1000 basis points) higher than the coupon at time of purchase; and
6. The Manager of Treasury Operations or Investment Manager will use pricing services, pricing matrices and "theoretical" pricing models to calculate the market value of all VRNs held in the portfolio and will regularly receive and record actual bids on all VRNs. Any material variances between standard pricing and actual bids will be reported immediately to the Chief Financial Officer. (A material difference is one in which the actual bid falls below .99 of the standard pricing or book value of the VRN.) Further, the value of actual bids received will be used to value the portfolio holding.
7. The use of Auction Rate Securities (ARS) is strictly prohibited.

2.4. Portfolio Diversification

Each portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the portfolio, based on book value at the time of purchase, permitted in each eligible security is as follows:

U.S. Government Obligations	100% maximum
Repurchase Agreements	50% maximum
Commercial Paper	60% maximum
Corporate Notes, Master Notes and Asset-Backed Securities Combined	10% maximum
Domestic Certificates of Deposit	20% maximum
Mutual Funds	75% maximum
Investment Contracts	10% maximum
Municipal Obligations	10% maximum
Variable Rate Notes (Federal Agency and Corporate Combined)	25% maximum

Investment Funds will be diversified to limit the exposure to any one issuer. No more than 5% of the Investment Funds will be invested, collectively, in the securities of any single issuer or counterparty with the following exceptions:

U.S. Treasury Obligations (including STRIPS)	100% maximum
Each Federal Agency	10% maximum
Repurchase Agreements Counterparties	Lesser of 10% or \$50 million
Mutual Funds	75% maximum

2.5. Investment Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the Authority is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the Authority in order to avoid the forced sale of securities prior to maturity.

LIPA Investment Guidelines

Generally, investments shall have maturities of 12 months or less. However, investment maturities may exceed 12 months provided that:

- The maturity does not exceed the expected disbursement date of those funds;
- The total average portfolio maturity is no greater than one year; and
- No individual maturity, except U.S. Government Obligations and Guaranteed Investment Contracts, exceeds three years.

Exceptions to these maturity limitations may be made by the Chief Financial Officer.

For the purpose of calculating the maturity of Investment Securities, maturity shall mean:

1. One day in the case of money market mutual funds, master notes, and other instruments that may be liquidated without notice,
2. The number of days remaining to the next reset date in the case of marketable floating rate securities,
3. The number of days remaining until the next put date in the case of securities subject to unconditional and irrevocable puts of the issue to the obligor, or
5. The actual number of days remaining until the maturity date for all other permitted investments.

Investments shall be made with the intent to hold the security until maturity, but may be sold prior to maturity if liquidity needs or market factors show that such action is necessary or prudent. After the sale, an analysis of the gain or loss in interest and/or principal shall be reported to the Chief Financial Officer with an explanation of why the sale was warranted.

2.6. Prohibited Investment Vehicles

The Authority is prohibited from the practices listed below:

- Auction Rate Securities (ARS);
- Investment in reverse repurchase agreements;
- Short sales (selling a specific security before it has been legally purchased);
- Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices;
- Investing in any security not specifically permitted by these Guidelines unless approved by the Chief Financial Officer.

2.7. Downgrades

In the event that a corporate issuer is placed on market watch or downgraded, the Chief Financial Officer shall be informed immediately and advised of any action to be taken. In the event that an issuer is downgraded out of compliance with the Authority's authorized investment vehicles, by either or both rating agencies, the issue shall be sold and the Chief Financial Officer shall be informed immediately.

2.8. Process for Obtaining Approval for New Instruments

Approval for new instruments shall be obtained from the Authority's Board of Trustees. Minor exceptions will require immediate approval from the CFO with final approval by the Board of Trustees. If the Board of Trustees comes to the decision not to approve a minor exception the investment will be liquidated immediately.

2.9. Nuclear Decommissioning Trust Funds

Sections 2.2, 2.3, 2.4 and 2.5 shall not govern the investment of the Nuclear Decommissioning Trust Funds (NDTF) for Nine Mile Point Unit 2. Separate investment provisions for the investment of the NDTF are attached (Appendix A).

3. Operating Parameters and Controls

The Authority has developed the following investment management controls to ensure that its assets are protected against loss, theft and misuse.

3.1. Authorized Officers and Employees

Investment decisions on behalf of the Authority shall be made by the Chief Financial Officer, or by the Executive Director of Finance or the external Investment Managers, under the supervision of the Chief Financial Officer. Investment transactions shall be implemented by the Chief Financial Officer, or by the Executive Director of Finance or the external Investment Managers, under the supervision of the Chief Financial Officer.

3.2. Competitive Selection

For each transaction in excess of ten million dollars (\$10,000,000) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall utilize competitive quotations. For each transaction which is equal to or less than ten million dollars (\$10,000,000) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may utilize either competitive quotations or negotiated prices. The foregoing shall not apply to the purchase of government securities at initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and/or Banks, except in the purchase of government securities at their initial auction or upon initial offering, and the most favorable quote accepted.

3.3. Compliance Audit

An annual independent audit of all investments will be performed by the external auditors. The Authority's financial statements with respect to investments, which are required to be prepared in conformance with generally accepted accounting principles for governments ("GAAP"), shall contain all of the note disclosures on deposits with financial institutions and investments required by the Governmental Accounting Standards Board Statements No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", dated April 1986. The Annual Investment Audit:

- Shall determine whether: the Authority complies with its own investment policies; investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's assets; and a system of adequate internal controls is maintained.
- Shall determine whether the Authority has complied with applicable laws, regulations and these Investment Guidelines; and
- Shall be designed to the extent practical to satisfy both the common interest of the Authority and the public officials accountable to others.

The results of the Annual Investment Audit shall be set forth in a report (the "Annual Investment Audit Report") which shall include without limitation:

- A description of the scope and objectives of the audit
- A statement that the audit was made in accordance with generally accepted government auditing standards
- A statement of negative assurance on items tested
- A description of any material weakness found in the internal controls
- A description of any non-compliance with the Authority's own investment policies as well as applicable laws, regulations and the State Comptroller's Investment Guidelines
- A statement on any other material deficiency or reportable condition as defined by *Governmental Auditing Standards* identified during the audit not covered above
- Recommendations, if any, with respect to amendment of these Guidelines

The Annual Investment Audit Report shall be submitted to the Chief Financial Officer and the Authority's Board of Trustees.

LIPA Investment Guidelines

Three copies of the Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority's fiscal year with the Coordinator of Public Authority Programs, Office of the State Comptroller, A.E. Smith Office Building, Albany, New York 12236.

3.4. Written Contracts and Confirmations

A written contract and/or a written confirmation shall be required for each investment transaction. However, the Authority shall not be required to enter into a formal written contract provided that the Authority's oral instructions to its broker, dealer, agent, investment manager/advisor, or custodian with respect to such transactions are confirmed in writing at the earliest practicable moment.

3.5. Safekeeping and Custody

All investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by a third-party custodian who may not otherwise be a counterparty to the investment transaction. All securities shall be held in the name of the Authority and will be free and clear of any lien.

All investment transactions will be conducted on a delivery-vs.-payment basis. Payment for investments shall be made only upon receipt by the custodian of the physical security, or in the case of securities in book-entry form, when credited for the custodian's account, which shall be segregated for the Authority's sole use. The custodian shall issue a safekeeping receipt to the Authority listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports that list all securities held for the Authority, the book value of holdings and the market value as of month-end.

The custodian may act on oral instructions from the Chief Financial Officer, Executive Director of Finance, or Treasury Staff (designated by the Executive Director of Finance). Such instructions are to be confirmed in writing immediately by an authorized signatory of the Authority.

Representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Authority shall be bonded in such a fashion as to protect the Authority from losses from malfeasance and misfeasance. If required by the Chief Financial Officer, appropriate Authority Officials may also be bonded in such a fashion.

Demand deposits, time deposits, and certificates of deposit issued by a commercial bank having a long term rating of "Aa3" or higher by Moody's or "AA-" or higher by S & P do not require collateralization unless otherwise required by the Chief Financial Officer. All other demand deposits, time deposits, and certificates of deposit shall be collateralized for amounts over and above Federal Deposit Insurance Corporation coverage. All collateral shall be Authorized Investments as set out in Section 2. There shall be a written custodial agreement which, among other things, specifies the circumstances under which collateral may be substituted. The Authority should not accept a pledge of a proportionate interest in a pool of collateral. The market value and accrued interest of collateral should, at least, equal the value of the investment and any accrued interest at all times. The recorded value of collateral backing any investment should be compared with current market values (mark to market) at the time of the initial investment and monthly thereafter to be certain that it continues to be at least equal to the value of the investment plus accrued interest. The mark-to-market reviews should use "bid" prices from a constant source.

3.6. Internal Controls

An operating procedures manual will be developed to control all Authority investment activity. The manual will be consistent with these Guidelines, shall be approved by the Chief Financial Officer, and shall include the following:

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

LIPA Investment Guidelines

3.7. Notification Concerning Violations of Investment Guidelines

In the event that these investment guidelines are violated, the Chief Financial Officer shall be informed immediately and advised of any corrective action that should be taken, as well as the implication of such action.

4. Qualified Financial Institutions

4.1. Qualifications for Brokers, Dealers and Agents

The Executive Director of Finance and/or the Authority's Investment Manager shall maintain a list of broker/dealers that are approved for investment purposes ("Qualified Institutions"). Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- "primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- registered as a dealer under the Securities Exchange Act of 1934;
- member in good standing of the National Association of Securities Dealers (NASD);
- registered to sell securities in the State; and
- the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

When selecting trading partners, the Authority will also consider the firm's quality, size, reliability, the Authority's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated transactions.

4.2. Qualifications for Investment Advisors/Managers

For the purpose of rendering investment management/advisory services to the Authority, the Authority may qualify any bank or trust company organized under the laws of any state of the United States of America, any national banking association, and any partnership, corporation, or person which is:

- Authorized to do business in the State as an investment manager/advisor; and
- Registered with the Securities & Exchange Commission under the Investment Advisor Act of 1940 or exempt from registration.

The Authority shall also consider the firm's capitalization, quality, size and reliability, the Authority's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated transaction.

4.3. Qualifications for Custodial Banks

To be eligible to hold Investment Securities purchased by the Authority or collateral securing its investments, a custodial bank shall be a member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book-entry transfer of Investment Securities to the credit of the Authority. The custodian should not be the same party that is selling the Investment Securities. To be eligible to perform custodial services, the Chief Financial Officer must affirmatively find that the proposed custodial bank is financially sound. This shall be determined by review of the financial statements and credit ratings of the proposed custodial bank.

4.4. Ongoing Disclosure

All brokers, dealers and other financial institutions described in sections 4.1, 4.2, and 4.3 shall be provided with current copies of the Authority's Investment Guidelines. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the Authority has investment transactions.

LIPA Investment Guidelines

4.5. Affirmative Action

Article 15-A of the Executive Law and 9 NYCRR Part 4.21 regarding affirmative action shall apply with respect to the Authority's investment activities. The Authority shall seek to utilize minority and women-owned financial firms in the conduct of the Authority's investment activities.

5. Reporting

Management reporting is required by the Authority in order to track compliance with policy guidelines, assess the performance of the portfolio and to inform appropriate management personnel.

5.1. Management Reporting

In order to manage the Investment Funds effectively and to provide management with useful information, it is necessary for the Treasury Department to report reliable and timely information regarding the investment transactions that take place.

A Quarterly Management Report on the investment management program shall be prepared and presented to the CFO and the Authority's Board of Trustees. The Quarterly Management Report shall include:

- An indication of all new investments;
- A portfolio inventory;
- Credit quality of each holding;
- Duration (or average maturity) of each fund;
- Mark-to-market valuations on investments and collateral; and
- A breakdown of the portfolio by counterparty.

An Annual Investment Report shall be submitted to the Board of Trustees and filed with the State Division of the Budget, State Comptroller, State Senate Finance Committee, and Assembly Ways and Means Committee. The Annual Investment Report shall include the following:

- The investment guidelines in compliance with Section 2925(3) of the Public Authorities Law and any amendments since last reported;
- An explanation of the investment guidelines and amendments;
- The results of the Annual Independent Audit (described in Section 3.3.);
- Investment income record of the Authority; and
- A list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and manager/advisor rendering investment associated services to the Authority since the date of the last investment report.

5.2. Performance Reporting

In order to ensure the effectiveness of the Authority's investment strategy, it is important to measure the performance of the portfolio. The performance measurement process can be broken into four categories:

- Investment benchmark – The Authority will continuously measure its performance against a benchmark having an average maturity comparable to the portfolios.
- Performance measurement – Each quarter the Authority must measure the performance of its investment portfolio versus its benchmark. By continuously measuring results against this standard benchmark, the Authority can determine a pattern of over/under performance.
- Identify sources of over/under performance – The Performance Reports distributed to the CFO must include information on the source of over/under performance.
- Disseminate results – Results shall be distributed to the CFO and the Board of Trustees in a timely manner.

6. Applicability

These Guidelines shall govern all investments initiated by the Authority after January 24, 2013 and shall not apply to any investments initiated by the Authority on or prior to January 24, 2013. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of, or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.

Appendix A – NDTF Investment Provisions

NUCLEAR DECOMMISSIONING TRUST FUND INVESTMENT PROVISIONS

PERMISSIBLE INVESTMENTS

The Authority may invest in the vehicles listed below if, and to the extent, the same conforms to the additional restrictions, if any, of the Trust Agreement dated as of May 29, 1990, between Long Island Lighting Company and Mellon Bank, N.A. and all related amendments.

1. Obligations of the U.S. Government, and of an agency of the U.S. Government directly guaranteed or insured by the U.S. or de facto guaranteed by the U.S. Government, including without limitation the Federal National Mortgage Association, acting without specific U.S. Government guarantees as obligors or as trustees for obligations of affiliation of subsidiary entities, and including notes insured by the Farmers Home Administration.
2. Obligations at the time of their purchase rated “A” or better by S&P or Moody’s. In the event that a corporate issuer is placed on market watch or downgraded, the Investment Manager shall immediately notify the Executive Director of Finance. Securities rated “A” are limited to 30% of the total fixed income portfolio, and payable in U.S. dollars of:
 - a) U.S. transportation, utilities, industrial, commercial or financial companies
 - b) U.S. Government agencies not included under (1) above
 - c) Obligations of state and local governments
3. Mortgage Pass-Through Obligations, Collateralized Mortgage Obligations, and Corporate Mortgage Obligations rated “AA” or better by S&P or “Aa” or better by Moody’s.
4. Commercial Paper rated “A-1” by Standard & Poor’s and “P-1” by Moody’s.
5. Certificates of Deposits, Eurodollar Certificates of Deposit, and Banker’s Acceptances of domestic banks with “A+” rating or better by S&P or “A1” or better by Moody’s.
6. Short-term money market investment accounts or “sweep accounts” that conform to the permissible investments under (1-5) above.
7. Portfolios or funds of securities designed to replicate the overall market as measured by the S&P 500 Index.
8. Futures contracts on the S&P 500 Index in the futures market (“S&P 500 Index Futures”).

PORTFOLIO RESTRICTIONS

Investments in the above-mentioned securities are limited by the following:

1. No more than 5% of the portfolio may be invested in the securities of any one issuer with the exception of U.S. government/agency securities.
2. No more than 25% of the portfolio may be invested in securities of issuers in the same industry.
3. No more than 20% of the portfolio may be invested in municipal securities.
4. No more than 30% of the portfolio may be invested in notes and bonds rated “A”. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement.
5. The average overall rating of the portfolio must be maintained at all times at “AA”. If an obligation is “split-rated”, the lowest of the ratings will be used to determine compliance with this requirement.
6. Investments in the securities or other obligations of the Authority, the investment managers, the custodian, their parents or subsidiaries are prohibited.
7. Except for investments that replicate the composition of market indices or other non-nuclear sector mutual funds, investment in any entity owning one or more nuclear power plants is prohibited.
8. No more than 5% of the value in the Trust’s equity position, or 1.75% of the entire Trust, may be invested in S&P 500 Index Futures.

LIPA Investment Guidelines

PERFORMANCE OBJECTIVE

Investments must be managed to track the Lehman Brothers Government/Credit Bond Index. The portfolio's duration should fall within a range of 20% below the duration of the index and 10% over the duration of the index.

The equity allocation target is 35% and must be rebalanced quarterly at plus or minus 5%.

LIPA Investment Guidelines

Appendix B - Operating Controls

Distribution of the Investment Guidelines

The guidelines and all subsequent amendments, revisions and updates shall be distributed to Authority personnel per the approval of the Chief Financial Officer.

During the period in which the Authority retains an investment manager, the investment manager must also receive the investment guidelines and all amendments, updates, or revisions to insure compliance with the most current guidelines.

Exhibit – Investment Guidelines Distribution Matrix

Distribution List	Frequency
Board of Trustees	As Necessary
Chief Financial Officer	As Necessary
Controller	As Necessary
Executive Director of Finance	As Necessary
Investment Manager	As Necessary

Roles and Responsibilities in Executing the Investment Guidelines

The roles and responsibilities for investment management at the Authority rest primarily with the Treasury Department although other departments have important roles. The matrix below defines the roles and responsibilities of all parties involved in the execution of the Investment Guidelines.

Exhibit – Policy Roles & Responsibility Matrix

Roles	Responsibility	Frequency
Board of Trustees	<ul style="list-style-type: none"> ▪ Final Approval of the guidelines ▪ Approval of exceptions to the guidelines (e.g. new investment types) ▪ Approval of revisions to the guidelines 	<ul style="list-style-type: none"> ▪ Annual ▪ As necessary ▪ As necessary
Chief Financial Officer (“CFO”)	<ul style="list-style-type: none"> ▪ Approval of the guidelines ▪ Approval of investment strategy ▪ Approval of performance measurements ▪ Approval of minor exceptions to the guidelines (i.e. amounts, maturities) 	<ul style="list-style-type: none"> ▪ Annual ▪ Annual ▪ Ongoing ▪ As necessary
Executive Director of Finance	<ul style="list-style-type: none"> ▪ Serve as custodian of the guidelines ▪ Develop investment strategy ▪ Review investment strategy ▪ Establish performance measurements ▪ Distribution of guidelines and amendments ▪ Annual review of guidelines ▪ Oversight of investment activity ▪ Invest funds as provided for in the guidelines ▪ Keep abreast of developments in the markets ▪ Review performance information ▪ Management reporting 	<ul style="list-style-type: none"> ▪ Ongoing ▪ Annual ▪ Ongoing ▪ Ongoing ▪ As necessary ▪ Annual ▪ Ongoing ▪ Ongoing ▪ Ongoing ▪ Ongoing ▪ Monthly ▪ Daily, Weekly ▪ Monthly, Quarterly

LIPA Investment Guidelines

Manager of Treasury Operations	<ul style="list-style-type: none"> ▪ Collect performance information ▪ Distribute performance information ▪ Keep abreast of developments in the markets and notify the Executive Director of Finance as needed 	<ul style="list-style-type: none"> ▪ Weekly ▪ Weekly ▪ Ongoing
Investment Manager	<ul style="list-style-type: none"> ▪ Develop investment strategy ▪ Review investment strategy ▪ Invest funds as provided for in the guidelines ▪ Reporting investment portfolio 	<ul style="list-style-type: none"> ▪ Annual ▪ Ongoing ▪ Ongoing ▪ Daily, Monthly, Quarterly

Segregation of Duties

The Authority requires adequate segregation of duties to prevent possible fraud, operational errors, misappropriation of funds, unauthorized trades, concealment of trades and manipulation of accounting records. Personnel involved in risk monitoring activities should be segregated from risk taking (i.e. executing transactions).

Exhibit – Segregation of Duties Matrix

Activity to be Performed	Segregation Level
Trade Execution	Individuals who are authorized to execute transactions should not confirm and settle the trades or conduct account reconciliation activities.
Trade Confirmation	Individuals who conduct confirmations should not execute transactions.
Settlement – Disbursing and Receiving	Individuals who handle cash settlement on the trades should not execute the trades. Cash settlement shall be transacted by any one of the authorized Authority signatories who did not participate in the trade execution. Only one signature is required due to the nature of the transaction, i.e., transfer of assets (including transfers in excess of \$25,000).
Account Reconciliation	Account reconciliation activities must be segregated from trade execution activities.

Management Reporting

Exhibit – Summary of Management Reporting

Report	Contents	Audience	Frequency
Management Report	Investment portfolio, mark-to-market valuations, collateral, counterparty breakdown	Chief Financial Officer, Board of Trustees	<ul style="list-style-type: none"> • Quarterly
Annual Investment Report	Investment Guidelines, explanation of Investment Guidelines & amendments, annual investment audit, annual investment income, total fees and commissions paid	Chief Financial Officer, Board of Trustees. (File with Division of the Budget, State Comptroller, State Finance Committee, Assembly Ways and Means Committee)	<ul style="list-style-type: none"> • Annually

Exhibit – Summary of Treasury Performance Reporting

Report	Contents	Audience	Frequency
Performance Report	Investment performance vs. benchmark variance analysis	CFO, Board of Trustees	Quarterly

LIPA Investment Guidelines

Operating Procedures

Operating procedures for the administration of the Authority's investment program should include the following:

- Each disbursement of funds (and corresponding receipt of Investment Securities) or delivery of Investment Securities (and corresponding receipt of funds) shall be based upon proper written authorization. If the authorization is initially given orally, there shall be written or telegraphic confirmation from an authorized signatory of the Authority to the custodian;
- The process of initiating, reviewing and approving requests to buy and sell Investment Securities shall be documented and retained for audit purposes. Dealer limits should be established and reviewed regularly;
- Custodians must have prior authorization from the Authority to deliver obligations and collateral. All transactions must be confirmed in writing to the Authority. Delivery of obligations sold shall only be made upon receipt of funds;
- Custodial banks shall be required to report whenever activity has occurred in the Authority's custodial account;
- There shall be at least monthly verification of both the principal amount and the market values of all investments and collateral. Appropriate listings shall be obtained from the custodian and compared against the Authority's records;
- A record of investments shall be maintained. The records shall identify the Investment Security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and custodian of collateral;
- The establishment and maintenance of a system of internal controls;
- Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;
- A data base of records incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices, and related information necessary to manage the portfolio;
- Requirements for periodic reporting and a satisfactory level of accountability.

Appendix C – Rating Definitions

MOODY'S

Short-Term Ratings

P-1	Superior
P-2	Strong
P-3	Acceptable
NP	Not Prime

Long-Term Ratings¹

Aaa	Best Quality
Aa	High Quality
A	Upper Medium Grade
Baa	Medium Grade
Ba	Speculative Elements
B	Speculative
Caa	Poor Quality
Ca	Near or in Default
C	Default

Note Ratings³

MIG1/VMIG1	Best Quality
MIG2/VMIG2	High Quality
MIG3/VMIG3	Favorable Quality
MIG4/VMIG4	Adequate Quality
SG	Speculative

Bond Fund Ratings

Aaa	Best Quality
Aa	High Quality
A	Upper Medium Grade
Baa	Medium Grade
Ba	Speculative Elements
B	Lacks Quality for Investment

Money Market Fund Ratings

Aaa	Best Quality
Aa	High Quality
A	Upper Medium Grade
Baa	Medium Grade
Ba	Speculative Elements
B	Lacks Quality for Investment

STANDARD & POOR'S

Short-Term Ratings

A-1+	Extremely Strong
A-1	Strong
A-2	Satisfactory
A-3	Adequate but susceptible to weakened capacity
B	Significant Speculative Elements
C	Vulnerable to Non-Payment
D	Default

Long-Term Ratings²

AAA	Extremely Strong
AA	Very Strong
A	Strong
BBB	Adequate
BB	Speculative
B	Low Vulnerability to Non-Payment
CCC	Vulnerable to Non-Payment
CC	Highly Vulnerable to Non-Payment
C	Extremely Vulnerable to Non-Payment
D	Default

Note Ratings

SP-1+	Very Strong
SP-1	Strong
SP-2	Satisfactory
SP-3	Speculative

Mutual Bond Fund Ratings

AAAf	Extremely Strong
Aaf	Very Strong
Af	Strong
BBBf	Adequate
BBf	Uncertain Protection
Bf	Vulnerable to Loss
CCCf	Extremely Vulnerable

Money Market Fund Ratings

AAAm	Excellent
AAm	Very Good
Am	Good
BBBm	Fair
G	Consists of Primarily U.S. Government Securities

¹ Numerical Modifiers of 1, 2 and 3 are applied to rating classifications from Aa to B, with 1 being the highest rating

² In order to show relative standing within the major rating categories, the ratings from AA to CCC may be modified by adding a plus or minus sign

³ Ratings for state and municipal short-term obligations are designated Moody's Investment Grade (MIG). Variable rate demand obligations have an additional rating (VMG) assigned to the demand feature

SECTION III



KPMG LLP
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New York, NY 10154-0102

Independent Accountants' Report on Investment Compliance

Board of Trustees
Long Island Power Authority:

We have examined the Long Island Power Authority's (the Authority) compliance with Part 201.3 of Title Two of the New York Code of Rules and Regulations during the year ended December 31, 2014. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

Our examination identified the following noncompliance with Part 201.3 of Title Two of the New York Code of Rules and Regulations for the year ended December 31, 2014:

While the Authority was in compliance with the established investment guidelines as approved by the Board of Trustees in fiscal 2013, the Authority's Board of Trustees did not review and approve the investment guidelines in fiscal 2014, as is required.

In our opinion, except for the instances of noncompliance described in the preceding paragraph, the Authority has complied with aforementioned requirement during the year ended December 31, 2014.

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

This report is intended solely for the information and use of management of the Authority, members of the Authority's Board of Trustees and the New York State Office of the State Comptroller and is not intended to be and should not be used by anyone other than those specified parties

KPMG LLP

March 26, 2015

SECTION IV

APPENDIX C

LONG ISLAND POWER AUTHORITY
SUMMARY OF INVESTMENT INCOME
AS OF DECEMBER 31, 2014

<u>Investment</u>	<u>Investment Income through 12/31/2014</u>
Money Market Funds/Cash	\$143,678
Corporate Notes/Commercial Paper	95,535
Federal Agency/T Bills	3,751
Total	<u>\$242,964</u>

Investment Income shown in this report only represents earnings from those assets managed externally (currently managed by JP Morgan Chase Asset Management). All other restricted cash obligations are excluded from this report, but are included in the financial statements of the Authority.

APPENDIX C

LONG ISLAND POWER AUTHORITY
SUMMARY BY INVESTMENT TYPE
AS OF DECEMBER 31, 2014

<u>Investment</u>	<u>Market Value w/Accruals As of 12/31/2014</u>
Money Market Funds	\$728,506,342
Commercial Paper/Corp Notes	147,599,880
Govt/Federal Agency	165,772,210
Total	<u>\$ 1,040,883,432</u>

Investment Holdings shown in this report only represent those assets managed externally (currently managed by JP Morgan Chase Asset Management). All other restricted cash and/or investments are excluded from this report, but are included in the financial statements of the Authority.