



cutting through complexity

New York Power Authority

2012 Audit Results Presentation to the
Audit Committee

March 21, 2013

Presented by:

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kpmg.com



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Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal controls
- Identifying and confirming that the Authority complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
 - disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's ability to record, process, summarize, and report financial data; and
 - acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and internal control

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected.
- Evaluating:
 - (a) whether the Authority’s controls sufficiently address identified risks of material misstatement due to fraud; and
 - (b) controls intended to address the risk of management override of other controls
- Communicating to you in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

Responsibilities (continued)

Other Information in Documents Containing Audited Financial Statements

- The auditors' report on the financial statements does not cover other information in documents containing audited financial statements, excluding required supplementary information.
- We are required to read the other information to identify material inconsistencies or misstatement of facts, if any, with the audited financial statements and make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the date of the auditors' report.

Audit results

Results of Audit:

Completed substantially all audit test work as of March 1, 2013

- Scope and Audit testing consistent with that discussed on September 24, 2012 (2012 Audit Plan)
- Scope focused on:
 - Derivatives (Purchased Power and Financial)
 - NYISO, SENY and Wholesale revenues/receivables
 - Long term debt including compliance with covenants
 - Nuclear decommissioning liabilities
 - Litigation and contingencies
 - Investments and compliance with the New York State Comptroller's investment regulations
 - Capital assets additions testing
 - Deferred charges and related liabilities and regulatory related balances
- No material misstatements identified
- No corrected or uncorrected adjustments identified
- No identified significant deficiencies or material weaknesses in internal controls
- KPMG to issue an unqualified opinion on the Authority's Financial Statements
- KPMG to issue an unqualified opinion on the Authority's compliance with its investment guidelines with no exceptions noted in compliance or internal control

Significant accounting policies

- Significant accounting policies are disclosed in the financial statements
- We have reviewed the accounting policies used by management in preparation of the financial statements and found such policies to be appropriate

Significant accounting policies	Financial statement accounts affected	Literature guidance summary	Alternative methods
<ul style="list-style-type: none"> ■ Accounting for Rate Regulation 	<ul style="list-style-type: none"> ■ Deferred charges ■ Regulatory assets/liabilities 	<ul style="list-style-type: none"> ■ ASC Topic 980, <i>Regulated Operations</i> 	<ul style="list-style-type: none"> ■ None
<ul style="list-style-type: none"> ■ Revenue Recognition ■ Billed and Unbilled 	<ul style="list-style-type: none"> ■ Receivables ■ Revenue 	<ul style="list-style-type: none"> ■ SAB 101 ■ FASB Concept 5 and 6 	<ul style="list-style-type: none"> ■ Unbilled revenues are not considered significant and not accrued for at year end
<ul style="list-style-type: none"> ■ Derivatives – Energy and Interest Rate 	<ul style="list-style-type: none"> ■ Purchased power costs ■ Interest/financing cost ■ Deferred outflows 	<ul style="list-style-type: none"> ■ GASB 53 	<ul style="list-style-type: none"> ■ None
<ul style="list-style-type: none"> ■ Cash and Investments 	<ul style="list-style-type: none"> ■ Cash and investments ■ Investment income 	<ul style="list-style-type: none"> ■ GASB 31 ■ GASB 3 ■ GASB 40 	<ul style="list-style-type: none"> ■ None
<ul style="list-style-type: none"> ■ Capital Assets 	<ul style="list-style-type: none"> ■ Capital assets, depreciation 	<ul style="list-style-type: none"> ■ GASB 34 	<ul style="list-style-type: none"> ■ Other depreciation methods
<ul style="list-style-type: none"> ■ Asset Retirement Obligations 	<ul style="list-style-type: none"> ■ Other assets ■ Other liabilities 	<ul style="list-style-type: none"> ■ ASC Topic 410, <i>Asset Retirement and Environmental Obligations</i> 	<ul style="list-style-type: none"> ■ None

Significant judgments and estimates

- We have reviewed the accounting estimates used by management in preparation of the financial statements. We evaluated the key factors and assumptions used by management and found such factors and assumptions to be reasonable.

Accounting area	Literature guidance summary	Financial statement accounts affected
<ul style="list-style-type: none"> ■ Self-Insurance Accruals <ul style="list-style-type: none"> – Claims and Damages 	<ul style="list-style-type: none"> ■ ASC Topic 450, <i>Contingencies</i> ■ GASB 10 	<ul style="list-style-type: none"> ■ Deferred credits and other ■ Operating expense
<ul style="list-style-type: none"> ■ Asset Retirement Obligations 	<ul style="list-style-type: none"> ■ ASC Topic 410 	<ul style="list-style-type: none"> ■ Deferred charges, long-term receivables and other ■ Deferred credits and other
<ul style="list-style-type: none"> ■ Energy Derivatives ■ Interest Rate Derivatives 	<ul style="list-style-type: none"> ■ GASB 53 	<ul style="list-style-type: none"> ■ Deferred outflows ■ Risk management obligations
<ul style="list-style-type: none"> ■ Other Post-employment Benefits (OPEB) 	<ul style="list-style-type: none"> ■ GASB 45 	<ul style="list-style-type: none"> ■ Miscellaneous receivables and other ■ Deferred charges, long-term receivables and other
<ul style="list-style-type: none"> ■ Accounting for Rate Regulation 	<ul style="list-style-type: none"> ■ ASC Topic 980 	<ul style="list-style-type: none"> ■ Regulatory assets – risk management activities ■ Deferred charges, long-term receivables and other

Audit risks and issues

Key audit risks/account balances and primary procedures to address the risk:

- Derivatives
 - Valuation of derivatives associated with energy price and interest rate fluctuations
 - Verification of external pricing sources and confirmations/statements from counterparties
 - Testing management's determination of hedging effectiveness
- Revenue
 - Appropriate revenue recorded as power is delivered
 - Confirmation of Receivables and detailed testing of SENY/Wholesale revenue
 - Confirmation of Revenue/Receivables with NYISO
- Nuclear Decommissioning Liabilities
 - Reporting and receipt of information and accounting for decommissioning trust and liabilities
 - Review of financial statements for completeness and accuracy of trust assets and obligations

Audit risks and issues (continued)

- Management Judgments and accounting estimates
 - Appropriate methodologies and assumptions in assessing exposures/liabilities
 - Reviewed methodology, assumptions (and third party statements where applicable) for reasonableness of amounts set up as reserves/liabilities
- Manual Journals and non recurring transactions
 - Appropriate accounting for existence and accuracy of unusual nonrecurring transactions
 - Selection and review of material journals, large and unusual entries, frequency, management approvals, etc.
- Investments
 - Appropriate accounting for investments in accordance with approved guidelines
 - Fair market value testing of all investments
 - Review of sample of investments for compliance with Board approved policies

Consideration of fraud risks

Summary of Fraud-Related Audit Procedures

In accordance with Statement on Auditing Standards (SAS) No. 99, Consideration of Fraud in a Financial Statement Audit, we have a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

Principal Audit Procedures

In executing our fraud-related audit procedures under SAS No. 99, we:

- Performed fraud risk assessment, which included the following:
 - Reviewed analytical procedures performed in planning the audit
 - Completed client/engagement continuance procedures
 - Reviewed interim financial statements
 - Held a meeting among engagement team personnel regarding fraud risk factors
- Evaluated client programs and controls to prevent, detect, and deter fraud
- Made inquiries of certain members of management and others within the entity about the risks of fraud and their knowledge of any fraud
- Reviewed postclosing journal entries and significant accounting estimates
- Reviewed significant accounting estimates and nonroutine transactions

Other required communications

- Significant Written Communications Between Auditor and Management:
 - Engagement Letter/Contract
 - Management Representation Letter
 - SAS 114 Letter
- Other Information in Documents Containing Audited Financial Statements:
 - Our report does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management’s Discussion and Analysis.
 - We have, however, read the other information included in the Authority’s MD&A, and no matters came to our attention that cause us to believe that such information is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.
- We are in compliance with the Public Authority Accountability Act in regards to non-audit services.
- In our professional judgment, we are independent with respect to the Authority as that term is defined by the professional standards (AICPA and GAO).

KPMG reports

- Audit Opinion on the Authority's Financial Statements as of and for the year ended December 31, 2012
- Accountant's Report on Investment Compliance with New York State Guidelines
- Required Communications to the Audit Committee (SAS 114 Letter)
- Auditor's Report on Internal Control over Financial Reporting and on Compliance on Other Matters
- Management Letter – not applicable this year

Other Matters

Going Concern	No events or conditions were identified that may cast substantial doubt on the entity's ability to continue as a going concern for a reasonable amount of time.
Related Party Transactions	No issues were noted.
Litigations, Claims, and Assessments	No issues were noted.
Illegal Acts or Fraud	No instances of fraud or suspected fraud involving management or employees who have significant roles in controls or others where fraud may result in a material misstatement of the financial statements were noted.
Non-compliance with Laws and Regulations	No matters involving actual or suspected non-compliance with laws and regulations came to our attention during the course of the audit.

Other Matters (continued)

Other Information in Documents Containing Audited Financial Statements	No matters to report
Significant Difficulties Encountered During the Audit	No matters to report
Disagreements with Management	No matters to report
Management's Consultation with Other Accountants	No matters to report
Significant Issues Discussed, or Subject to Correspondence, with Management	No matters to report
Alternative Accounting Treatments Discussed with Management	No matters to report
Other Findings or Issues Relevant Regarding Oversight of the Financial Reporting Process	No matters to report
Communications with the Firm's National Office	No matters to report

KPMG's Audit Committee Institute (ACI)

Communicating with Audit Committees Since 1999

Upcoming Events

- Audit Committee Quarterly Webcast Series

- March 28, 2013 11:00 a.m. EST

- A quarterly webcast providing updates and insights into issues affecting Audit Committee/Board oversight – from key accounting and regulatory changes to developments in risk oversight.

Resources

- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications):* www.kpmginsights.com
- ACI Website: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



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