

**MINUTES OF THE REGULAR MEETING
OF THE
AUDIT COMMITTEE**

September 24, 2013

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Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Niagara Power Project in Lewiston, New York, at approximately 10:00 a.m.

The following Members of the Audit Committee were present:

Trustee Terrance P. Flynn, Chairperson
Trustee Eugene L. Nicandri
Trustee R. Wayne LeChase

Also in attendance were:

John Koelmel	Chairman, New York Power Authority
Jonathan Foster	Trustee, New York Power Authority
R. Wayne LeChase	Trustee, New York Power Authority
J. Mahoney	Trustee, New York Power Authority
Gil Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Judith McCarthy	Executive Vice President and General Counsel
Donald Russak	Executive Vice President and Chief Financial Officer
Karen Delince	Corporate Secretary
Thomas Concadoro	Vice President and Controller
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Lesly Pardo	Vice President – Internal Audit
Frank Deaton	Director – Enterprise Risk Management
Gary Schmid	Manager – Network Services
Lorna Johnson	Associate Corporate Secretary
Sheila Baughman	Assistant Corporate Secretary
Kenneth Deon	Engagement Partner, KPMG (via teleconference)
Scott Heiser	Senior Manager, KPMG
Nicholas DiVirgilio	Manager, KPMG

Chairman Terrance P. Flynn presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Chairman Flynn welcomed committee members Trustees Nicandri and LeChase, the Authority's Chairman and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.

1. Adoption of the Proposed Meeting Agenda

By motion made and seconded the agenda for the meeting was adopted.

2. Consent Agenda:

a. Approval of the Minutes

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting of July 23, 2012 were approved.

Discussion Agenda:

3. Mid-year 2013 Financial Statements

The Vice President and Controller submitted the following report:

"The Authority is required to file mid-year financial statements with certain banking institutions and other interested parties within 90 days of the end of the period. In the interest of continuing disclosure, the Authority also files these statements with the Electronic Municipal Market Access ('EMMA') system maintained by the Municipal Securities Rulemaking Board. The mid-year financial statements present the financial position and results of operations of the Authority as of June 30, 2013 under generally accepted accounting principles. The statements (Exhibit '3-A') are prepared by staff and are not required to be audited by the Authority's independent accountants.

The results reported in this report are consistent with the financial reports presented at the July 2013 Board meeting. The cover page of the report indicates that this report should be read in conjunction with the statements and notes contained in the Authority's December 31, 2012 Annual Report. Consistent with past practice, the footnotes to these financial statements are abbreviated when compared to the Authority's annual financial statements.

Changes of particular significance in amounts and in footnote disclosures have been highlighted on the attached draft report to facilitate the Audit Committee's review of the report."

Mr. Thomas Concadoro presented highlights of the mid-year financial statements to the Committee. He said the June 30, 2013 Financial Statements are required to be filed with banking institutions by September 30. The Statements are also posted on the electronic system maintained by the Municipal Securities Rulemaking Board and are consistent with the results presented in the Chief Financial Officer's report at the July Board

meeting. Footnotes focus on key updates and incorporate the annual report by reference similar to an SEC filing.

Balance Sheet

Mr. Concadoro said the increase in current assets of \$80 million reflected in the investment and receivable balances is primarily due to positive results of the Authority's operations. The increase in Accounts payable and deferred charges was primarily due to recognition of the Authority's obligation to pay interconnection costs related to the transmission capacity purchase agreement with Hudson Transmission Partners ("HTP") (\$115 million). Debt remains stable; the Authority had no major bond issues or retirements during the period.

Income Statement

Mr. Concadoro indicated that net income as of June 30, 2013 was \$103 million, which was \$25 million higher than last year. He also reported that, at the request of the New York State Division of Budget, the State contribution payment of \$25 million was deferred until September. He said purchased power costs were higher (\$116 million) primarily due to higher energy and capacity prices (impacted by the closing of the Danskammer plant) and fuel costs were \$88 million higher reflecting higher natural gas prices this year (Gas prices were extraordinarily low during the 1st half of 2012). Large line item variances in purchased power and fuel costs did not have a significant effect on net income since they are offset by higher revenues reflecting the recovery of such costs from customers. Investment income reflects an unrealized loss in 2013 (higher market interest rates reduced market value of fixed rate investments.)

Cash Flows

- Significant cash produced by operating activities for periods ending June 2013 and 2012.

Footnotes

Mr. Concadoro provided the following highlights:

- Accounting Policy – No significant changes during the period.
- Derivative Activity – Balances declined reflecting cash settlements on positions previously taken by the Authority. Authority entered into new transactions to lock in revenues related to high capacity prices through swaps.
- State Contribution – Deferred \$25 million State contribution payment to September based on request from the Division of Budget.

- *HTP – HTP line went into commercial operation on June 3 – Authority’s obligation to make initial payment of interconnection costs of \$115 million – total expected to be approximately \$250 million.*
- *Litigation – Ruling in the Authority’s favor in the St. Regis land claim.*
- *Solar and Energy Efficiency MAP – Updated contracts and other developments for solar and energy efficiency market acceleration programs.*

4. Internal Audit Activity Report – August 31, 2013

The Vice President of Internal Audit submitted the following report:

“SUMMARY

The Internal Audit Activity Report covers the performance of the Internal Audit Department for the period of January 1 through August 31, 2013. The report provides the status of the 2013 Audit Plan as of August 31, 2013, including a summary of completed audits, audits in progress and reports issued (see Exhibit ‘4-A’).

BACKGROUND

The Internal Audit Department is an independent, objective and consulting function designed to add value by improving the Authority’s internal control structure and operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, test and improve the effectiveness of internal controls, risk management and governance processes.

The Audit Committee Charter states that the Committee shall provide oversight of the Office of Internal Audit (‘OIA’) and the OIA’s resources and activities to facilitate the OIA’s improvement of internal controls. In addition, the Committee shall meet at least three times a year with the head of the OIA for the purpose of reviewing audit activities, audit findings, management’s responses, remedial action plans, and providing the OIA with an opportunity to discuss items and topics of relevance to the Audit Committee.

The purpose of this report is to provide the Audit Committee the status of the 2013 Internal Audit Plan, which was reviewed by the Committee at its meeting in March.”

Mr. Lesly Pardo provided highlights of the Internal Audit Activity report to the Committee. In response to a question from Authority Chairman Koelmel, Mr. Pardo said the Internal Audit department will participate in an external quality assessment in the fourth quarter and plans to engage in a bench-marking activity in order to implement a report rating system, which will be implemented in the 2014 Audit Plan. Responding to further questioning from Authority Chairman Koelmel, Mr. Pardo said based on the Audits completed as of August 31, no material deficiencies in the Authority’s internal control system were identified; however, recommendations were made to improve or strengthen the internal controls.

In response to a question form Chairman Flynn, Mr. Pardo said the results of the Recharge NY customer audits will be provided to the Marketing Department which will determine the extent of compliance by Recharge New York Power Program customers. These customers have to file their compliance reports with the

Marketing Department by August 31, 2013. Since all of the customer audits have not been completed, Internal Audit cannot provide the percentage of compliance at this time. However, based on audits of other economic development programs, historically there is usually more than 90% compliance by customers.

In response to a question from Trustee Nicandri, Mr. Pardo said by the end of the fourth quarter all sixty (60) audits should be completed and Internal Audit will provide a summary of the results of the audits to the Committee.

5. **Presentation of 2013 Audit Plan**

Mr. Kenneth Deon, KPMG's Engagement Partner for the Authority's Audit, introduced Mr. Scott Heiser, Senior Manager on the Audit, and Mr. Nicholas DiVirgilio, Manager, and asked Mr. Heiser to brief the Committee on KPMG's Audit Plan.

Mr. Scott Heiser presented an overview of the 2013 Audit Plan (Exhibit "5-A"). He gave a summary of the Authority management's responsibilities and the Audit Committee's responsibilities with respect to the financial statements and the audit. He outlined the objectives of the audit and methodology, a summary of the approach and process and how they tailor it to the Authority's business and activities. He also outlined the KPMG engagement team's responsibilities in conducting the audit which include applying government auditing standards and opining on the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Mr. Heiser discussed audit risks and how they relate to key financial statement accounts and balances, and how the accounting for Recharge New York and other programs is included in the audit. He outlined some of the entity-wide controls such as policies and procedures to mitigate risks that would be examined as part of the overall audit approach. He also said that, as part of KPMG's audit planning, the audit team uses their professional judgment and a risk assessment in designing their audit procedures. Mr. Heiser then outlined KPMG's timetable and said that the internal control testing should be completed by mid-November and the year-end testing in February 2014.

Responding to a question from Authority Chairman Koelmel, Mr. Heiser indicated that risks considered by the auditors include, but are not limited to, liquidity, counterparty credit risk and revenue recognition.

6. Enterprise Risk Report

Mr. Frank Deaton provided an update on the Authority's risk management activities. He said the goal of Enterprise Risk Management is to identify potential risk events that may affect the Authority and to provide a risk-informed view of the organization to assist management and the Trustees in the decision-making processes based on known or potential future risks.

He then provided the Committee with the results of the 2013 Risk Assessment which was conducted to enhance the quality of the Authority's risk inventory. He said over the summer, the Enterprise Risk team conducted 18 Risk Workshops across the organization, using two different approaches, top-down and bottom up assessment, in order to ensure consistency both in terms of framework and definition of Authority risks. He said this initial assessment identified a clear view of what represents enterprise risks for the Authority and how risks are being managed. The results also provided a baseline for action plans and mechanisms as to how the Authority can monitor the individual risk and the performance of those action plans.

He also provided a summary of the nine enterprise risks that were the results of the Enterprise Risk team's correlation of more than 185 risks into categories, the purpose of which is to give the executive management and the trustees a purview of the interrelationships between individual risks and how they represent the significant concerns and considerations to the Authority's mission and objectives.

In response to a question from Chairman Flynn, President Quiniones said the "Organizational Fatigue" risk category is related to the culture of the Authority. The Authority wants to make sure that the principles and day-to-day practices that it lives by are consistent and motivates employees. The Authority endeavors to create an environment where individual employees feel they can be developed, productive and excited about their work. In response to further questioning from Chairman Flynn, President Quiniones said this risk is not unique; it's not different in the private sector; the public sector has other responsibilities and duties as an authority of the state.

In response to a question from Trustee Foster, President Quiniones said compensation is a component of Organizational Fatigue, but there are other factors in the workplace, e.g. motivation and the feeling of being able to realize one's potential, training, continuing education, more flexible work assignments, et al., all of which add up to organizational culture. Therefore, the Authority has to address both compensation-related and other issues in forming a workforce that will be inspired to perform at their highest level. Responding to further questioning from Trustee Foster, President Quiniones said although the Human Resources Department will have

the primary role in regards to this risk, Corporate Support Services and the Executive management team will also have a role to play.

In response to a question and comment from Trustee LeChase, President Quiniones agreed that career paths are very important in terms of employee morale and compensation is certainly a part of it, making it a substantial risk, especially in the Authority's case where 30% of its employees are going to be eligible for retirement over the next five years. And, at the lower end of the spectrum, approximately 30% of its employees are with the Authority from 0 to 5 years. Therefore, since the Authority would like to retain its employees, especially those coming up the chain, it is important that the Authority provide cross-training opportunities and appropriate career paths.

Mr. Russak added that some of the failures associated with the risk of attracting and retaining personnel can be considered in terms of communication; the ability of the employee to see and be a part of the broader goals/mission of the Authority; not to have the sightline from that employee level to the ends of the Authority's mission, will manifest themselves in this "organizational fatigue." Any factors that may contribute to low morale or low productivity are of concern to the Authority and that is what staff is trying to address with this risk of "organizational fatigue." He said, over the years, the Authority has prided itself on being a high-performing organization and it is important for it to continue that trend.

Responding to a question from Chairman Koelmel, Mr. Russak said although organizational fatigue is included in the top risk, it does not mean the Authority is performing poorly in communication; however, it is a concern for the Authority because it was raised in a number of dialogues within the organization. This risk is actually about communicating the goals and mission to employees throughout the organization, ultimately to allow them understand and be part of what those goals are.

President Quiniones added that the Authority, and the utility industry, is expecting a number of changes, some of which will be discussed in the strategic planning process; therefore, it is important that each of the Authority's employee understand its mission and goals and that they feel they have ownership and part of those goals. Organizational Fatigue is included in the list of Enterprise risks, not because the Authority feels we are deficient on it, but because the Authority believes that it is something it needs to step-up in light of all the changes that we are anticipating not just within the Authority but in the utility industry.

In response to a question from Trustee Nicandri, President Quiniones said the Authority provides some guidance to employees who get promoted to managerial jobs. Employee training is also handled through the performance review process. There is a “Development Plan” section on the Performance Review form within which in-house training courses are offered for both “hard” and “soft” skills.

Chairman Flynn said he would ask that the Enterprise Risk team, as well as the executive management team, keep this risk in the forefront. Going forward, he would like to have more information on this risk to put it in perspective and learn more about it, since it is so high on the list.

7. Motion to Conduct an Executive Session

Mr. Chairman, I move that the Authority conduct an executive session to consult with counsel. Upon motion made and seconded, an executive session was held.

8. Motion to Resume Meeting in Open Session

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made and seconded, the meeting resumed in Open Session.

9. Next Meeting

Chairman Flynn said that the next regular meeting of the Audit Committee will be held on Tuesday, December 17, at the Clarence D. Rappleyea Building in White Plains, New York.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 11:30 a.m.

A handwritten signature in black ink, appearing to read "Karen Delince". The signature is fluid and cursive, with the first name "Karen" and last name "Delince" clearly distinguishable.

Karen Delince
Corporate Secretary

EXHIBITS

For

September 24, 2013

Meeting Minutes

Audit Committee

Internal Audit Activity Report

August 31, 2013

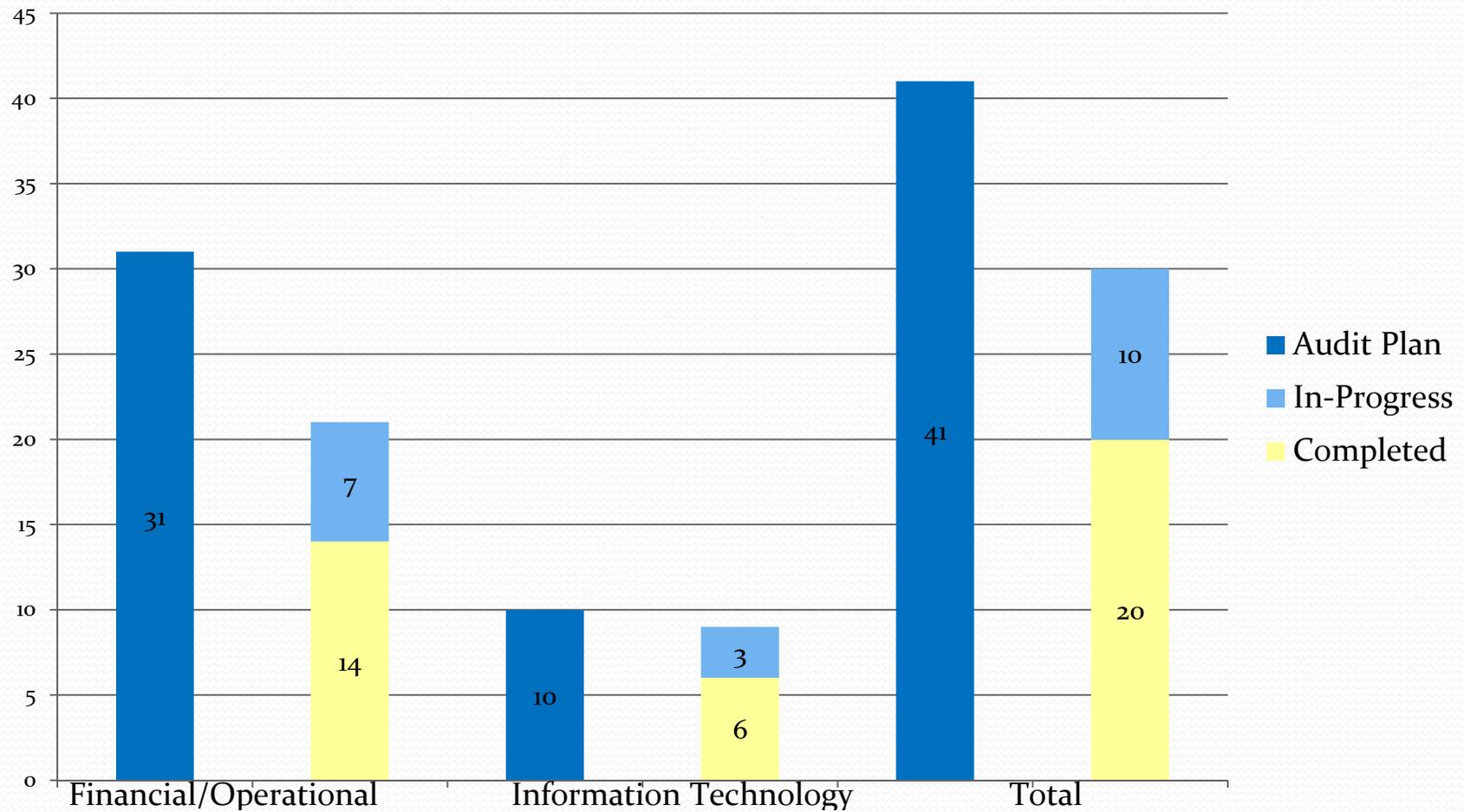
2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
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2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
SUMMARY

- Completed 20 audits and projects including 14 financial/operational and six (6) information technology audits.
- Ten (10) audits in progress as of 8/31/13.
- Approximately 73% of the audits in the original Audit Plan have been completed or in progress.
- Issued 18 audit reports. Four (4) reports under review as of 8/31/13.
- Fifty-six (56) recommendations were made to improve internal controls/operational efficiency.
- All recommendations have been accepted by management. Accepted recommendations are being actively tracked and critical recommendations implemented are being verified.
- Approximately 60 RNY customers will be audited over the next four months for compliance with their Job Commitment and Capital Investment Commitments.
- Internal Audit will participate in an external quality assurance review in the fourth quarter.

2013 INTERNAL AUDIT PLAN ACTIVITY REPORT 8/31/13 AUDIT PLAN STATUS



**2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
AUDIT PLAN UPDATE**

FINANCIAL

- Energy Efficiency – Statewide Program
- ReCharge NY Customer Revenues
- Energy Hedging Transactions
- NYISO Energy Settlements – LSE
- Flynn/Sound Cable Revenues
- Headquarters Procurement (Consulting Contracts)
- SENY Revenues
- Energy Efficiency Contractors (SENY)
- Facility Management
- Energy Efficiency Contractors (Statewide)
- NYISO Ancillary Services/Transmission Charges
- Headquarters Accounts Payable
- Headquarters Travel & Living Expenses
- Purchasing/Warehousing – SENY
- SENY Finance & Administration/HR
- CEC Finance & Administration/HR
- St. Lawrence Finance & Administration/HR
- Headquarters Business Expenses (Consulting)
- Navigant Consulting Contracts (1)
- Headquarters Payroll (1)

INFORMATION TECHNOLOGY

- NERC – CIP Compliance
- IT Disaster Recovery – Niagara
- IT Disaster Recovery – Energy Control Center
- SAP Materials Management

STATUS

- 4th Quarter
- 4th Quarter
- In Progress
- 3rd Quarter
- Completed
- In Progress
- Completed
- Completed
- In Progress
- 4th Quarter
- 3rd Quarter
- Completed
- Completed
- Completed
- Completed
- In-Progress
- In Progress
- 3rd Quarter
- In Progress
- In Progress
- Completed
- 4th Quarter

INFORMATION TECHNOLOGY (Continued)

- SAP Accounts Payable (2)
- Electronic Record Management System (Livelihood)
- Time Warner Wide Area Network
- Internet/Intranet Security
- Procurement E-Sourcing Pre-Implementation Review (1)
- Intrusion Prevention and Monitoring
- SAP Project Systems
- Health Insurance Portability and Accountability Act (HIPAA) Security (1)
- SAP Human Resources (1)

OPERATIONAL/COMPLIANCE

- ReCharge NY Program Management
- Emergency Management
- Lewiston Pump Generation Plant LEM
- Safety Program
- Transmission LEM
- Western Region O&M
- Fuel Operations
- 500 MW O&M
- Budgetary Control – O&M and Capital
- Transmission O&M Follow-up
- Physical Security Program

OTHERS

- Vendor Contract Audits
- Assistance to KPMG
- RNY Job Commitment Audits

STATUS

- 4th Quarter
- Completed
- Completed
- Completed
- Completed
- 3rd Quarter
- 4th Quarter
- Completed
- In-Progress
- 4th Quarter
- Completed
- Completed
- 3rd Quarter
- 4th Quarter
- In-Progress
- Completed
- 4th Quarter
- Completed
- In-Progress
- Completed
- In-Progress
- 4th Quarter
- In-Progress

(1) Audit Added
(2) Audit Postponed

2013 INTERNAL AUDIT PLAN
 RECHARGE NY CUSTOMERS
 JOB COMMITMENT & CAPITAL INVESTMENT AUDITS
 8/31/13

Total No. of Customers In-Service	Total No. of Customers Full 12-Months Period (July 1, 2012 – June 30, 2013)	Total No. of Customers With One Year Capital Investment Commitment	Audit Plan 2013	
			Job Commitment	Capital Investment
492	277	25	55	5

2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/Recommendations
Health and Insurance Portability and Accountability Act (HIPAA) Security Audit	Evaluate NYPA Policies and Procedures to ensure effective management and protection of confidential and protected health information and compliance to HIPAA privacy and security rules.	Internal controls could be improved in the following areas: -Policies and Procedures need to be updated to comply with new regulations. -A formal risk assessment is not in place and required by law. -A formal risk assessment should be conducted to assess the potential risks vulnerabilities and mitigating measures to minimize risks over the confidentiality, integrity and availability of protected health information.
Physical Security – Niagara Power Project	Review physical security program at the Niagara Power Project. Evaluate the adequacy and effectiveness of controls over Contractor Badging Process, Inspections and Monitoring activities, Security Incidents tracking and reporting, and compliance with FERC and NERC requirements and established NYPA policies and procedures.	-Controls over the contractor badging process and system need improvement. Additional controls are needed to ensure that all badged contractors have a completed background check. -Documentation covering Security Incident Reporting could be improved.

**2013 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/13
REPORT RECAP**

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
SENY Purchasing & Warehouse	Review processes and controls associated with purchasing and warehousing activities at the 500 MW Project. Verify compliance with established NYPA policies and procedures.	Recommendations were made to improve internal controls over: <ol style="list-style-type: none"> 1. Sole Source contracts awarded to M/WBEs and Small Business Enterprises. 2. Materials and Supplies issued from the warehouse. 3. Procurement Credit Card transactions.
Governmental Billing - SENY	Determine the adequacy and effectiveness of controls over SENY Governmental Revenues. Review procedures and processes for processing of meter reading data and billings of SENY customers.	Internal controls over customer billings are operating effectively. Additional automated system check should be implemented to detect certain billing anomalies for review and follow-up by Billing personnel.
IT Disaster Recovery – Energy Control Center (ECC)	Evaluate the IT Disaster Recovery Plan at the ECC to determine if it is adequate to ensure the recovery of actual systems, applications, data and operations.	Internal controls over the IT Disaster Recovery Plan at the ECC were found to be adequate and effective.



cutting through complexity

Power Authority of the State of New York (NYPA)

2013 Audit Plan
September 24, 2013
Ken Deon and Scott Heiser

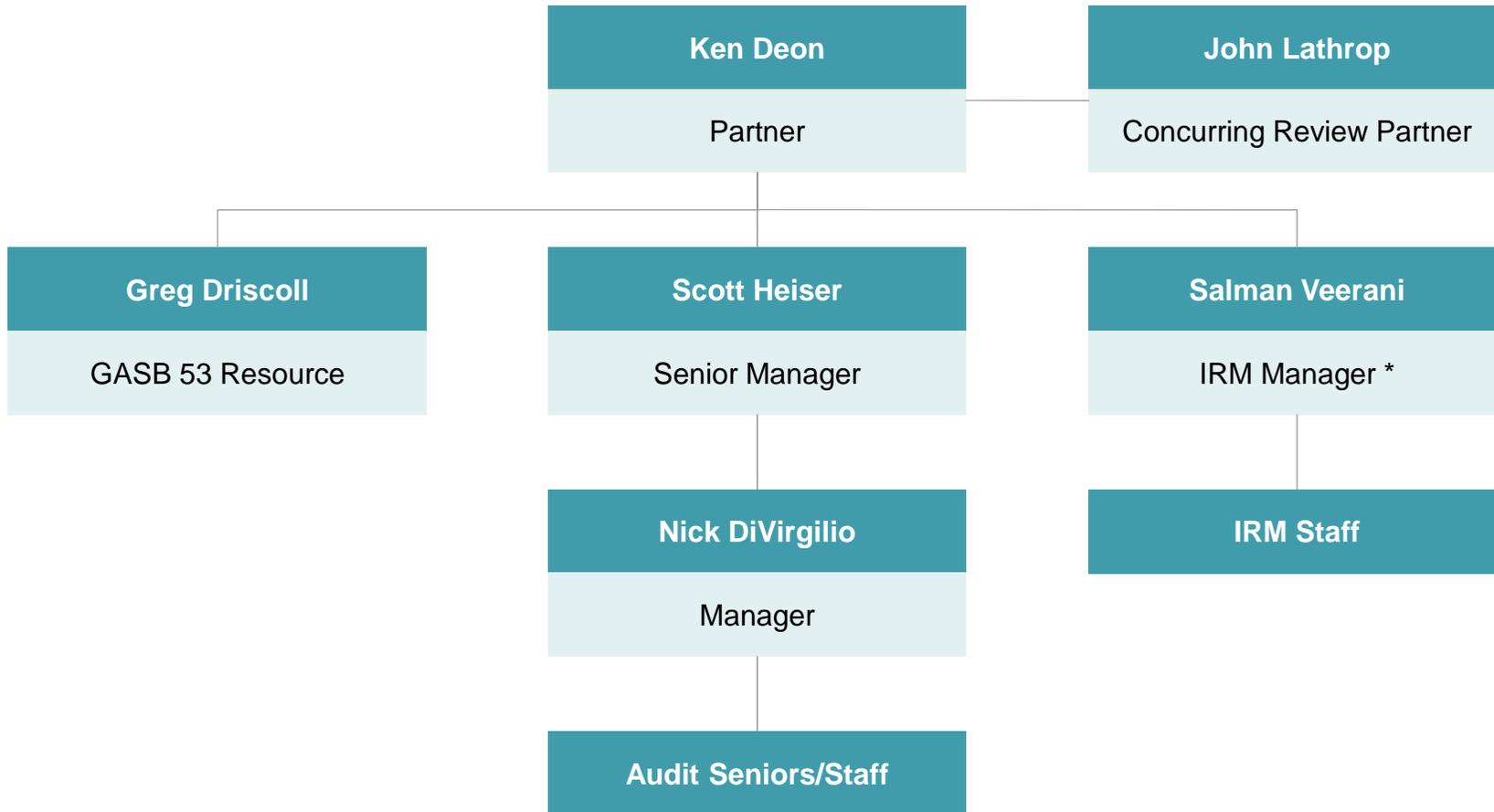
Prepared: September 9, 2013

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KPMG Audit Plan - Agenda

- **KPMG Client Service Team**
- **Audit Objectives and Responsibilities**
- **Audit Approach and Methodology**
- **Audit Plan**
 - Scope
 - Risk Assessment
 - Materiality
 - Fraud
 - Substantive Audit Procedures/ Significant Areas
 - Deliverables and Timetable
- **Independence**
- **Ethics and Compliance Hotline**
- **KPMG's Audit Committee Institute (ACI)**

KPMG Client Service Team



* Information Risk Management.

Audit Objectives

- The objective of an audit of financial statements is to enable the auditor to express 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 (GAAP).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance
- Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinion.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

Audit Objectives and Responsibilities (continued)

KPMG Responsibilities

- Express an opinion about whether the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles (GAAP).
- Planning and performing the audit with an attitude of professional skepticism
- Evaluating Internal Controls over Financial Reporting (ICFR) as a basis for designing audit procedures.
- Conducting the audit in accordance with professional standards and complying with 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.
- Adhere to the 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
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to the Audit Committee and management 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
- Provide the Audit Committee with additional information regarding our audit and the Company's accounting and financial reporting process as required under Statement of Auditing Standards (SAS) No. 114, *The Auditor's Communication with Those Charged with Governance*
- Provide management and the Audit Committee with comments and recommendations regarding internal control that were noted as part of our audit (if applicable)
- We continue to provide independent feedback to management and the Audit Committee of the Board of Trustees on emerging industry, and accounting issues

Responsibilities (continued)

Management Responsibilities

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with GAAP and other applicable standards (i.e. GASB)
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- 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 unrestricted access to person's within the entity from whom the auditor determines it necessary to obtain audit evidence
- Providing the auditor with a letter confirming certain representations made during the audit that include, but are not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the Authority's ability to initiate, authorize, record, process, or report financial data
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud

Management and the Audit Committee are responsible for:

- 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 for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to 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.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.

KPMG's Audit Approach and Methodology

1. Experienced team

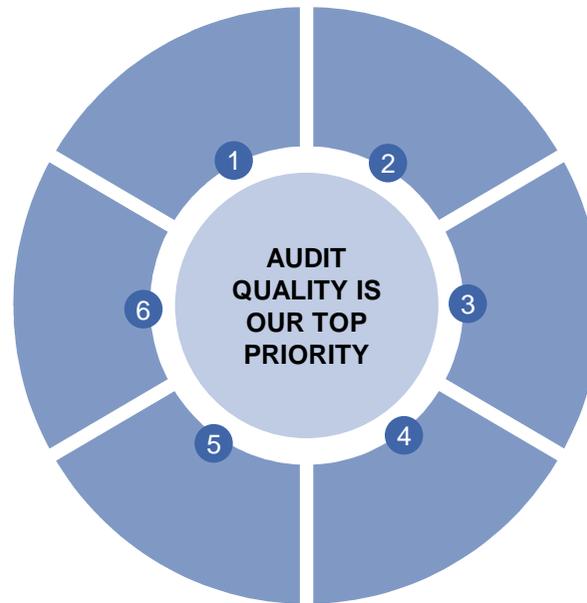
We have an experienced team. Our team includes the following specialists: Information Risk Management (IRM) and Forensics.

6. Compliance with applicable professional standards

KPMG has systems and processes in place to monitor compliance with professional standards.

5. Consistent audit methodology worldwide

Consistent audit methodology and technology used by KPMG member firms worldwide.



2. Tailored to Authority's business strategies and activities

In developing our audit plan, we have based our approach on our understanding of the Authority's objectives and strategies and the challenges facing the business.

3. Top-down, risk-based approach

We work closely with management to understand the business challenges and changes in the business during the year with respect to the impact on our audit approach. Our audit plan outlines our assessment of audit risk and highlights specific areas of focus.

4. Effective and efficient audit

Our audit approach involves interaction with all levels of management throughout the year to identify issues. Our audit approach is based on communication and coordination with management and Internal Audit.

KPMG's Audit Approach and Methodology (continued)

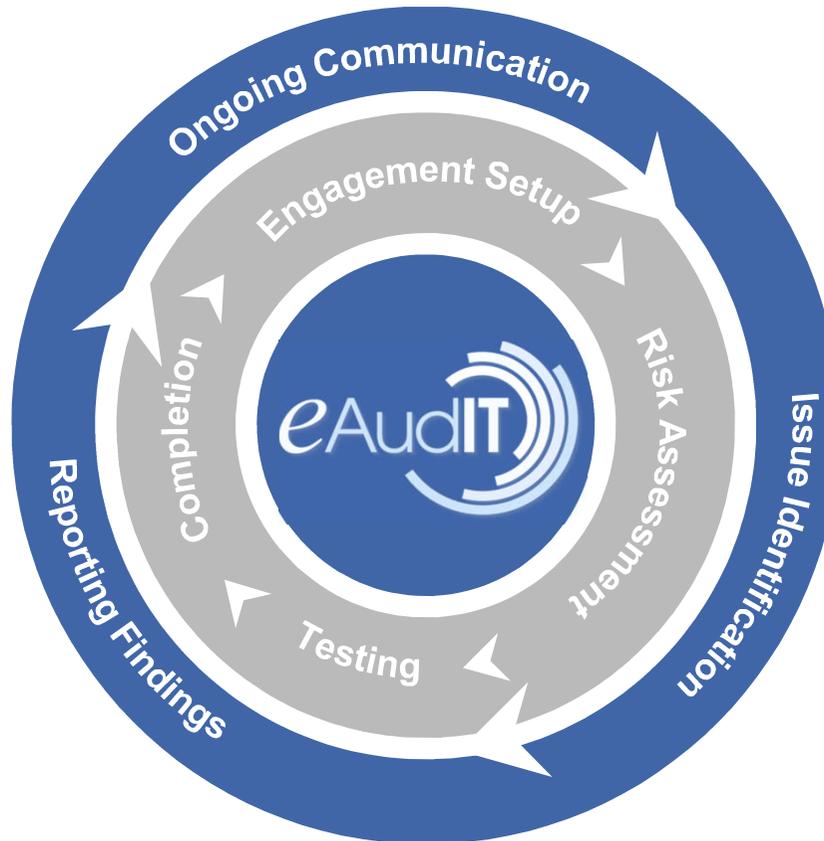
Technology enabled audit work flow

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry

Completion

- Form and issue audit opinion on financial statements
- Required communications to those charged with governance
- Debrief audit process



Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of your internal controls
- Perform substantive tests

Audit Plan - Scope

Scope of work

Audit of the financial statements of NYPA as of and for the two- year period ended December 31, 2013

Applicable financial reporting framework

U.S. generally accepted accounting principles (GAAP/GASB)

Applicable auditing standards

Auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS)

Governmental Auditing Standards issued by Comptroller of the United States

Other terms of engagement

Expected communications with management and the Board of Trustees/Audit Committee

Issue report on Investment Compliance and Internal Controls

Audit Plan - Risk Assessment

Based on our understanding of the entity’s business, industry, and environment (including internal controls), the following are significant risks in the financial statements that will be considered in our planned audit approach in response to such risks:

Audit Risk	Issues
Current economic environment - Liquidity	<p>We will design audit procedures to understand NYPA’s exposure to the current economic environment and perform appropriate procedures to ensure account balances are appropriately stated and the proper disclosures are made. The following issues will be addressed:</p> <ul style="list-style-type: none"> • Impaired investments and assets • Access to credit markets • Fair value of assets • Accounts receivable aging and related allowance for doubtful accounts
Management judgments and accounting estimates	Appropriate methodologies and assumptions in assessing exposures/liabilities; ISO Reserves, Bad Debt Reserves, OPEB obligations, self insured reserves, legal injuries and damage
Fuel, purchased power, and interest rate derivatives	Proper determination of fair value and accounting and disclosure requirements as required by GASB 53
Revenue recognition	Appropriate revenue recorded as energy is delivered including unbilled revenue accounting
Other considerations – NYPA’s business risks	<p>Transactions with New York State</p> <p>Volatility of fuel due to macro economic factors regarding oil, natural gas prices and power and its impact on derivatives or risk management model utilized by NYPA (i.e. exposure to new risk)</p>

Risk assessment (continued)

Audit Risk	Issues
Debt Obligations	Compliance with related covenants
Lease accounting	Purchase Power Agreements with third parties as leases or executory contracts KPMG will review management's assessment of any potential impairments to capital leases
Recharge NY and Other Programs	Review of program activities, and appropriateness of program's accounting
Top side journal entries	Appropriate accounting for existence and accuracy of unusual nonrecurring transactions
Contract approval process & new power contracts	All contracts are subject to detailed review for legal and accounting implications, including contracts entered into on behalf of NYPA

Audit Plan – Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Audit Plan – Fraud Risks

Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee, and others
- Evaluate the Authority's broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks:

- Evaluate design and implementation of antifraud controls
- Test effectiveness of antifraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee

Substantive Audit Procedures/Significant Audit Areas

Cash and Investments

- Confirm all balances in cash and investment accounts
- Test, on a sample basis for compliance with investment guidelines
- Value investments on a sample basis with KPMG's pricing department to determine if recorded at appropriate fair value

Purchase Power and Fuel Expense

- Purchase power invoices
- Oil and gas invoices
- Analytical procedures of account balances

Revenue

- Review and recalculate bills based on applicable tariffs
- Send confirmations for a sample of accounts receivable balances
- Perform analytical and substantive procedures of account balances
- Recalculate the allowance on account receivables and evaluate management's methodology
- Send confirmation to the NYSISO for ISO related revenues and expenses

Fuel and Materials Inventory

- Review inventory observations (in conjunction with internal audit) at selected locations to verify quantity of inventories
- Perform cost and price testing procedures over inventory

Substantive Audit Procedures/Significant Audit Areas (continued)

Derivatives

- Confirm all derivatives (debt and fuel related) with counterparty
- Re-perform the valuation for a sample of derivative positions
- Perform process walk through of a sample of fuel derivatives

Debt

- Confirm all debt
- Review debt compliance for all existing debt
- Select a sample of interest expense payments and obtain audit evidence to support expenditure

Lease and Other Agreements

- Review all new lease agreements for proper accounting treatment
- Confirm terms of certain existing lease agreements

Plant and Property

- Select a sample of invoices to ensure proper accounting treatment for additions to Plant in service and CWIP accounts
- Select a sample of retirements to ensure proper accounting treatment for retirements
- Perform analytical procedures of account balances

Journal Entries

- Obtain audit documentation for a selection of manual journal entries to verify authorization, appropriateness, and if in accordance with adopted accounting principles

Deliverables and Timetable

Planning and Interim

August thru November

- Perform risk assessment procedures and identify risks
- Determine audit strategy and identify critical accounting matters
- Finalize planned audit approach
- Meet with executive management for feedback, discussion, and time table of deliverable
- Complete testwork over selected controls and substantive audit procedures at interim date

Year-End Substantive Testing

End of January through February 2014

- Perform remaining substantive procedures and tests of details
- Consider if audit evidence is sufficient and appropriate
- Conclude on critical accounting matters and issues
- Review draft financial statements
- Begin completion procedures

Deliverables and Timetable (continued)

Completion

February through Mid-March

- Finish completion procedures
- Finish overall evaluation of the financial statements and disclosures
- Finalize audit opinion on financial statements
- Finalize Deliverables:
 - Audit Opinion on NYPA's Basic Financial Statements as of and for the year ended December 31, 2013
 - Investment Guidelines Compliance Report
 - Report on Internal Control over Financial Reporting and Compliance on Other Matters
 - A-133 Single Audit, if necessary
 - Required Communications to the Audit Committee
 - Management letter, if necessary

Independence

In our professional judgment, we are independent with respect to NYPA, as that term is defined by the professional standards

Ethics and Compliance Hotline

- KPMG LLP's Ethics and Compliance Hotline is a reporting mechanism that facilitates reporting of possible illegal, unethical, or improper conduct as outlined in KPMG's Code of Conduct. The Ethics and Compliance Hotline is available 24 hours a day, seven days a week
- The hotline is administered by an independent, third-party provider and is available to firm partners and employees, as well as clients, contractors, vendors and others in a business relationship with KPMG, including other member firms whose partners and employees may be working with the U.S. firm on engagements with U.S.- based clients
- Hotline Number: 1-877-576-4033

KPMG's Audit Committee Institute (ACI)

Audit Committee Quarterly Webcast Series

- 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 Web site: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: 1-877-KPMG-ACI

Questions?



cutting through complexity

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**New York Power
Authority**

Generating more than electricity

Enterprise Risk Management Update

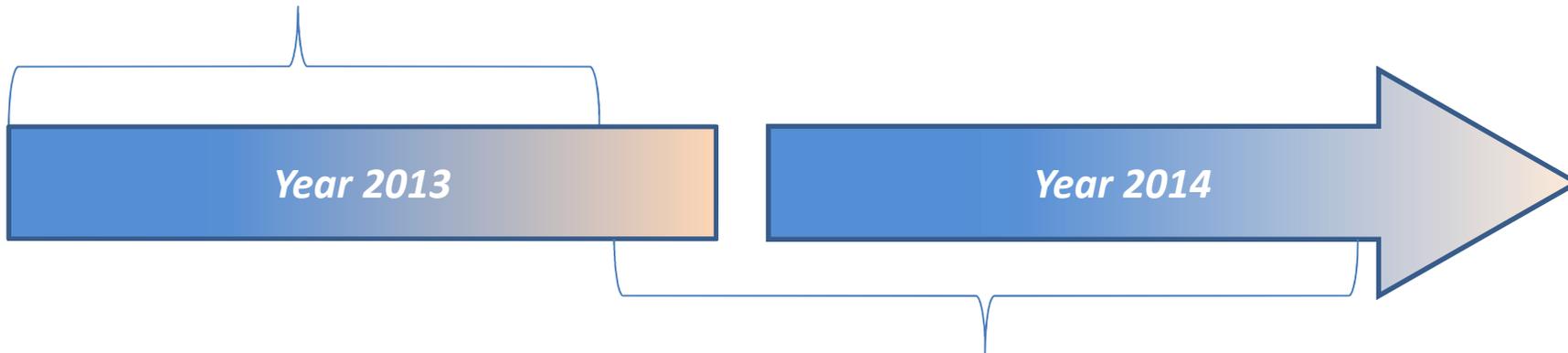
Frank Deaton
Director Enterprise Risk

September 24, 2013

Audit Committee of the Board of Trustees Meeting

Enterprise Risk Management Process

- Enhanced governance
- 2013 Assessment Process – Consistent Framework & Common Definition
- Conducted 18 Risk Workshops - Bottom-Up and Top-Down Assessment Processes
- Implemented Quality Control Measures (including SME review)
- Correlated Results to Articulate Enterprise Risks
- Reviewed Enterprise Risks with Executive Management



- Ongoing Response Plan Development, Implementation & Monitoring
- Key Risk Indicator Development
- Structured 2014 Assessment Process – Supported by Periodic Updates to Individual Risks as Warranted

2013 Risk Assessment Results

Bottom Up Assessment Results:

- 185+ Risks in the Inventory
- 28 “Top Risks” (Impact X Probability Score > 15)

Top Down Assessment:

- Executive Risk Management Committee members were surveyed
- Survey results correlated well with the Bottom Up Assessment results

Summary of Enterprise Risks

Enterprise Risks represent the correlation of risk events into categories. These risk areas require integrated response by NYPA as there is no single risk owner:

- ❖ **Infrastructure**: NYPA's generation and transmission assets or their supporting infrastructure may not operate as planned.
- ❖ **Catastrophic Events**: Catastrophic events may negatively affect NYPA's ability to achieve its mission including effects on its cash flows, results of operations, financial condition, workforce and customers.
- ❖ **Regulatory Compliance**: NYPA or the facilities it operates may become subject to new laws, regulations and orders, and existing laws and regulations may be revised or reinterpreted in a way that adversely affects NYPA's ability to achieve its mission including effects on its cash flows, results of operations, and financial condition as well as the way NYPA conducts its business.
- ❖ **Cyber Security**: NYPA may become the target of a cyber-attack(s) that could impair the operability of its information technology assets or result in a data breach.

Summary of Enterprise Risks (Continued)

The five remaining Enterprise Risks relate to uncertainty that surrounds and/or impacts NYPA's workforce and highlights the importance of human capital as a critical asset at NYPA:

- ❖ **Attract/Retain Key Personnel:** Failure to attract and retain an appropriately qualified workforce may negatively affect NYPA's results of operations.
- ❖ **External Influences:** New laws, regulations, administrative orders, NYS policies, or NYS Legislative action/inaction, may negatively affect NYPA's ability to achieve its mission including effects on its cash flows, results of operations, and financial condition, as well as the way NYPA conducts its business.
- ❖ **Internal Communications:** Ineffective communication within NYPA may negatively affect NYPA's decision-making, results of operations, financial condition and the morale/productivity of its workforce.
- ❖ **Safety:** Relaxed safety mindset or deferred investment in safety infrastructure may lead to injury or loss of life.
- ❖ **Organizational Fatigue:** The uniqueness of NYPA as a New York State Public Authority operating in a competitive marketplace may place its workforce in a position where organizational fatigue could affect the results of NYPA's operations.