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# **New York Power Authority Audit Committee Meeting March 25, 2014 2013 Audit Results**

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# Audit results

## Results of the audit

- Scope and audit testing consistent with that discussed on September 24, 2013
- Scope focused on the following:
  - Revenue and accounts receivable (NYISO, SENY and Wholesale)
  - Derivatives (purchased power and financial)
  - Long-term debt obligations including compliance with covenants
  - Accuracy and recoverability of regulatory assets and deferred charges
  - Capital assets additions
  - Investments and compliance with the New York State Comptroller's investment regulations
- No material misstatements identified
- No corrected or uncorrected adjustments identified
- No significant deficiencies or material weaknesses identified within internal controls
- KPMG will issue an unqualified opinion on the Authority's financial statements
- KPMG will 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
<ul style="list-style-type: none"> <li>■ Accounting for Rate Regulation</li> </ul>	<ul style="list-style-type: none"> <li>■ Deferred charges</li> <li>■ Regulatory assets/liabilities</li> </ul>
<ul style="list-style-type: none"> <li>■ Revenue Recognition</li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables</li> <li>■ Revenue</li> </ul>
<ul style="list-style-type: none"> <li>■ Derivatives – Energy and Interest Rate</li> </ul>	<ul style="list-style-type: none"> <li>■ Purchased power costs</li> <li>■ Interest/financing cost</li> <li>■ Deferred inflows/outflows</li> </ul>
<ul style="list-style-type: none"> <li>■ Cash and Investments</li> </ul>	<ul style="list-style-type: none"> <li>■ Cash and investments</li> <li>■ Investment income</li> <li>■ Decommissioning trust fund</li> </ul>
<ul style="list-style-type: none"> <li>■ Capital Assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Capital assets, depreciation</li> </ul>
<ul style="list-style-type: none"> <li>■ Asset Retirement Obligations</li> <li>■ Removal Costs</li> </ul>	<ul style="list-style-type: none"> <li>■ Other assets</li> <li>■ Other liabilities</li> </ul>

# 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	Financial statement accounts affected
<ul style="list-style-type: none"> <li>■ Self-Insurance Accruals                             <ul style="list-style-type: none"> <li>– Claims and Damages</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Deferred credits and other</li> <li>■ Operating expense</li> </ul>
<ul style="list-style-type: none"> <li>■ Asset Retirement Obligations</li> </ul>	<ul style="list-style-type: none"> <li>■ Deferred charges, long-term receivables and other</li> <li>■ Deferred credits and other</li> </ul>
<ul style="list-style-type: none"> <li>■ Energy Derivatives</li> <li>■ Interest Rate Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>■ Deferred outflows</li> <li>■ Risk management obligations</li> </ul>
<ul style="list-style-type: none"> <li>■ Other Post-employment Benefits (OPEB)</li> </ul>	<ul style="list-style-type: none"> <li>■ Miscellaneous receivables and other</li> <li>■ Deferred charges, long-term receivables and other</li> </ul>
<ul style="list-style-type: none"> <li>■ Accounting for Rate Regulation</li> </ul>	<ul style="list-style-type: none"> <li>■ Regulatory assets – risk management activities</li> <li>■ Deferred charges, long-term receivables and other</li> </ul>

# Audit risks and issues

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

- Revenue
  - Appropriate revenue recorded as power is delivered
    - Confirmation of Receivables and detailed testing of SENY/Wholesale revenue
    - Agree SENY/Wholesale billed rates to the approved tariffs
    - Confirmation and detail testing of Revenue/Receivables with NYISO
    - Detail testing of wheeling charges
- Derivatives
  - Valuation of derivatives associated with energy price and interest rate fluctuations
    - Testing management's determination of the fair value of derivatives utilizing firm valuation specialists
    - Confirm open derivative contracts and key terms with counterparties
    - Testing management's determination of hedging effectiveness utilizing firm specialists
    - Detail testing derivative settlements throughout the year
- Long Term Debt
  - Appropriate classification of debt and assessment of compliance with covenants
    - Confirm outstanding long term debt, including commercial paper with third parties
    - Recalculate interest expense throughout the year
    - Review debt covenants and ensure the Authority was compliant as of December 31, 2013

# Audit risks and issues (continued)

- Regulatory Assets/Liabilities and Deferred Charges
  - Appropriate assessment of the recoverability and accuracy of amounts deferred
    - Detail tested additions to deferred charges/regulatory assets throughout the year
    - Assessed the recoverability of the charges to ensure they are appropriately deferred
- Capital Assets
  - Appropriate capitalization and depreciation of assets
    - Test additions and disposals from capital assets to ensure amounts are appropriately capitalized
    - Test depreciation expense recorded for the year
    - Review the impairment policy to ensure there were no trigger events
- Investments (including Nuclear Decommissioning Trust Fund)
  - 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
    - 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
- Management Judgments and accounting estimates
  - Appropriate methodologies and assumptions in assessing exposures/liabilities
  - Reviewed methodology, assumptions (and third party reports/data) 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 manual journal entries based on the timing of the entries, recording to certain accounts and recorded by specific members of management

# 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

# KPMG reports

- Audit Opinion on the Authority's Financial Statements as of and for the year ended December 31, 2013
- Accountant's Report on Investment Compliance with New York State Guidelines
- Auditor's Report on Internal Control over Financial Reporting and on Compliance on Other Matters
- Required Communications to the Audit Committee (SAS 114 letter)
- Management Letter – Not applicable this year

## Other matters

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 where fraud may result in a material misstatement of the financial statements were noted.
Noncompliance 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.
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
Scope limitation	No matters to report
Other findings or issues relevant regarding oversight of the financial reporting process	No matters to report
External confirmations (If relevant)	No matters to report

# Material written communications between KPMG and management

- Engagement letter
- Management representation letters
  - Financial statement report
  - Investment compliance report
- SAS 114 letter

# Independence

- 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).
- Contact the KPMG Ethics and Compliance Hotline with questions or concerns
  - Phone: 1-877-576-4033
  - Online: [www.kpmgethics.com](http://www.kpmgethics.com)

# KPMG's Audit Committee Institute (ACI)

## Communicating with Audit Committees Since 1999

### Upcoming Events

- 11<sup>th</sup> Annual Audit Committee Issues Conference

- February 2 – 3, 2015

This conference brings together Audit Committee members from around the country to discuss challenges, practices, and priorities shaping Audit Committees and board agendas.

- Audit Committee Quarterly Webcast Series

- March 27, 2014 11:00am 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](http://www.kpmginsights.com)

- ACI Web site: [www.auditcommitteeinstitute.com](http://www.auditcommitteeinstitute.com)

- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)

- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



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