



cutting through complexity

New York Power Authority Audit Results December 31, 2015

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March 29, 2016

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**Required Communication to the Finance and Audit Committee*

Summary of Audit Results

2015 Audit Results as of March 15, 2016

Audit and other results

- KPMG will issue an unqualified opinion on the Authority's financial statements as of and for the year ended December 31, 2015.
- KPMG will issue an unqualified opinion on the Authority's compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended December 31, 2015.
- KPMG will issue a report on the Authority's Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Other deliverables in 2015

- Consents and comfort letters in connection with the Authority's Series 2015A Revenue Bonds offering

KPMG complied with the following while performing our audit

- The auditing standards generally accepted in the United States of America
- The standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States
- Independence requirements

KPMG supports Management by:

- Bringing to management's attention suggestions for improving the Authority's internal controls and financial reporting policies and procedures and other performance improvement observations identified
- Advise the Authority on the interpretation and implementation of new accounting or reporting requirements
- Maintained proactive working relationships with senior management and the Audit Committee

Audit Focus Areas

Audit Area	Audit Focus
GASB 68 & 71 Adoption	<ul style="list-style-type: none"> ■ We reviewed the Authority's adoption of GASB 68 & 71 during 2015. We reviewed: <ul style="list-style-type: none"> ■ The cumulative effect to opening net position as of January 1, 2015 ■ The impact the adoption had on current year net position ■ Disclosures within the financial statements
Revenue recognition and accounts receivable	<ul style="list-style-type: none"> ■ Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2015 ■ Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts ■ Agreed SENY/Wholesale billed rates to the approved tariffs ■ Confirmed and detail tested revenue with the NYISO throughout the year ■ Detail tested wheeling charges ■ Tested and relied upon IT controls over the Authority's revenue and invoicing process
Long term debt	<ul style="list-style-type: none"> ■ Confirmed outstanding long term debt, including commercial paper with third parties ■ Recalculated interest expense throughout the year ■ Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2015 ■ Reviewed offering documents of debt issuances and provided consents and comfort letters ■ We assessed the accounting treatment of the 2015 debt issuance and related costs.

Audit Focus Areas (continued)

Audit Area	Audit Focus
Capital assets	<ul style="list-style-type: none">■ Tested additions and disposals from capital assets to ensure amounts are appropriately capitalized■ Tested depreciation expense recorded for the year■ Reviewed the impairment policy to ensure there were no triggering events in 2015
Investments (including the Nuclear Decommissioning Trust)	<ul style="list-style-type: none">■ Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk■ Reviewed a sample of investments for compliance with Board approved policies■ Confirmed the investment balance with the bank as of December 31, 2015■ Review of financial statements for completeness and accuracy of trust assets and obligations

Significant Estimates and Management Judgments

We evaluated the key factors, assumptions and other judgments used by management to develop the following significant estimates. We noted that such estimates are reasonable in relation to the financial statements taken as a whole.

Significant Estimates/Judgments	Audit Focus
Derivative assets and liabilities	<ul style="list-style-type: none"> ■ Ensured consistency of fair value with available market data; reliability of broker quotes and forward price curves ■ Reviewed counterparty credit risk-assumptions of likelihood of default and calculation of credit valuation allowance ■ Mark to model calculations for fair value ■ Effectiveness – correlation of hedging instrument with underlying hedged item ■ Tested the appropriateness of the classification in the statement of net position and disclosures in the financial statements
Asset Retirement Obligations and Cost of Removal	<ul style="list-style-type: none"> ■ Tested key management estimates and assumptions utilized in the determination of the future cost ■ Ensured the inflation and discount rates utilized by the Authority are reasonable ■ Tested the appropriateness of the presentation on the statement of net position (deferred inflow or regulatory liability)

Significant Estimates and Management Judgments (continued)

Significant Estimates/Judgments	Audit Focus
Regulatory Assets	<ul style="list-style-type: none">■ Tested changes in regulatory assets related to electricity supply market costs■ Tested the recoverability of regulatory assets■ Ensure the amounts are properly presented on the statement of net position
Litigation, environmental, and other contingencies	<ul style="list-style-type: none">■ Tested the completeness of accruals through the circulation of legal letter inquiries■ Assessed the estimates of amounts and probability of exposure for outstanding legal matters.■ Assessed the adequacy of disclosures.

Significant Accounting Policies

- Significant accounting policies are disclosed in note 2 to the financial statements.
- We have reviewed the accounting policies utilized by management in preparation of the financial statements and found such policies to be appropriate.
 - Basis of Reporting – GAS 62
 - Impairment of Capital Assets – GAS 42
 - Investment Accounting – GAS 31
 - Derivative Accounting – GAS 53
 - Refunding of Debt – GAS 23
 - Regulated Operations – ASC 980
 - Asset Retirement Obligations – ASC 410
 - Pensions – GAS 68 & GAS 71
 - Deferred Inflows/Outflows – GASB 65

Audit Misstatements as of March 15, 2016

Current Year Uncorrected Audit Misstatements:

- There were no current year uncorrected audit misstatements identified during the audit.

Current Year Corrected Audit Misstatements:

- There were no current year corrected audit misstatements identified during the audit.

Rollover misstatements from prior periods:

- There were no uncorrected audit misstatements from prior periods that had a rollover effect on the current year statement of revenues, expenses and changes in net position.

Omissions or Other Errors in Disclosure:

- Throughout the normal course of our audit of the financial statements we provided management with comments on the financial statements, however during this process no significant omissions or other errors were identified.

Non-GAAP Accounting Policies:

- Unbilled revenue – The Authority does not accrue for unbilled revenue at year-end as the amount is immaterial (approximately \$2 million as of December 31, 2015).
- Deferred refinancing costs – The Authority records deferred refinancing costs as an offset to long-term debt as opposed to a deferred inflow/outflow on the statement of net position as the amount is immaterial (\$6 million as of December 31, 2015).
- Capitalization threshold – The Authority immediately expenses capital equipment purchases under \$2K rather than capitalize and depreciate them over their useful lives. The Authority purchased and expensed a total of approximately \$650K of equipment under \$2K during the year ended December 31, 2015.

Internal control findings

Material weaknesses and Significant deficiencies

- There were no material weaknesses or significant deficiencies in internal controls over financial reporting (ICFR) identified at the Authority as of and for the year ended December 31, 2015.
- All deficiencies in ICFR noted during our audit have been communicated to management.

Other Required Communications

Related-party transactions	All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements as of December 31, 2015.
Litigations, claims, and assessments	The disclosures within the financial statements as December 31, 2015 are appropriate.
Illegal acts or fraud	No matters to report.
Noncompliance with laws and regulations	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	None noted.
Significant issues discussed, or subject to correspondence, with management	Other than items previously discussed in this presentation, none noted
Scope limitation	None noted.
Other findings or issues relevant to the oversight of the financial reporting process	None noted.
Independence	In our professional judgment, KPMG is independent with respect to the Authority
Significant Written Communications with Management	Engagement Letter Management Representation Letter Letter Communicating to Those Charged with Governance

KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

ACI Programs

- Audit Committee Roundtable Series
 - approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
 - 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.
- 13th Annual Audit Committee Issues Conference
 - January 9-10, 2017, Boca Raton, FL

Suggested Publications (available for download at www.kpmg.com/aci)

- Directors Quarterly
- Global Boardroom Insights
- On the 2016 Audit Committee and Board Agendas
- Global Audit Committee Survey

Resources

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

KPMG's Global Energy Institute

Recent publications

- [The Race for the Customer- Winning in a dynamic marketplace](#)
- [Times of Change](#)
- [Don't Stop Thinking About Tomorrow](#)

2016 KPMG Global Energy Conference

- May 25-26, 2016; Royal Sonesta Hotel, Houston TX
- Keynote speakers: Alan Mulally, George Will, and Paul Begala

Webcasts on Demand

- [2016 Economic Outlook and Year-End Considerations](#)
- [Quarterly Outlook for Accounting and Financial Reporting – December 2015](#)

Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- 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](tel:1-877-KPMG-ACI)

Appendix

Responsibilities

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud
- Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is 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 financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud; and
 - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance 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 (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 GAAP. Our audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- Planning and performing the audit with an attitude of professional skepticism
- 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
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee 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. The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.

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, except for required supplementary information which is covered by the auditors' report.
- We are required to:
 - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
 - Make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date.
- 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.
- We have performed the following procedures with respect to other information:
 - We read Management's Discussion and Analysis (MD&A).
 - We compared information in MD&A to the audited financial statements to identify material inconsistencies.
 - No material inconsistencies were noted.

Peer Review Report and Acceptance Letter



System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 5, 2014

December 11, 2014

John B Veihmeyer, CPA
KPMG LLP
345 Park Ave
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 11, 2014 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2017. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



Larry Gray
Chair, National Peer Review Committee
nprc@aicpa.org 919 402.4502

cc: Keith Robert Rowden; Thomas W Whittle

Firm Number: 10054128

Review Number 359579

Letter ID: 945097



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