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# New York Power Authority

2011 Audit

Audit Committee

March 27, 2012

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# Agenda

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# Audit Results

## Results of Audit:

Completed substantially all audit test work as of February 17, 2012

- Scope and Audit testing consistent with that discussed in November 2011 presentation of 2011 Audit Plan
- Scope focused on:
  - Derivatives (Purchased Power and Financial)
  - NYISO, SENY and Wholesale revenues/receivables
  - Long term debt including compliance with covenants
  - Nuclear Liabilities
  - Litigation/contingencies
  - Investments and compliance with State investment regulations
- 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

# KPMG Responsibilities under GAAS

## **Our Responsibilities under GAAS:**

We have a responsibility to conduct our audit in accordance with generally accepted auditing standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, our internal control testwork did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses.

# 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"> <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>■ ASC Topic 980, <i>Regulated Operations</i></li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>
<ul style="list-style-type: none"> <li>■ Revenue Recognition</li> <li>■ Billed and Unbilled</li> </ul>	<ul style="list-style-type: none"> <li>■ Receivables</li> <li>■ Revenue</li> </ul>	<ul style="list-style-type: none"> <li>■ SAB 101</li> <li>■ FASB Concept 5 and 6</li> </ul>	<ul style="list-style-type: none"> <li>■ None</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 outflows</li> </ul>	<ul style="list-style-type: none"> <li>■ GASB 53</li> </ul>	<ul style="list-style-type: none"> <li>■ None</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> </ul>	<ul style="list-style-type: none"> <li>■ GASB 31</li> <li>■ GASB 3</li> <li>■ GASB 40</li> </ul>	<ul style="list-style-type: none"> <li>■ None</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>■ GASB 34</li> </ul>	<ul style="list-style-type: none"> <li>■ Other depreciation methods</li> </ul>
<ul style="list-style-type: none"> <li>■ Asset Retirement Obligations</li> </ul>	<ul style="list-style-type: none"> <li>■ Other assets</li> <li>■ Other liabilities</li> </ul>	<ul style="list-style-type: none"> <li>■ ASC Topic 410, <i>Asset Retirement and Environmental Obligations</i></li> </ul>	<ul style="list-style-type: none"> <li>■ None</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	Literature Guidance Summary	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> <li>– Environmental Reserves</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ ASC Topic 450, <i>Contingencies</i></li> <li>■ GASB 10</li> <li>■ GASB 49</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>■ ASC Topic 410</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>■ GASB 53</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>■ GASB 45</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>■ ASC Topic 980</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:

- 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
    - Review of risk management policies by KPMG Financial Risk Management professionals
- 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
- Capital Lease Accounting
  - Determination of lease accounting for AE II transaction
    - Review of agreement to verify contract provisions
    - Review of key assumptions used

## 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
  - Refer to detailed listing of significant judgments and estimates on page 5
- 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

# Involvement of Specialists

## Involvement of Specialists and Others

- Information Risk Management
  - Tested Information Technology general controls over SAP and certain Information Technology application controls
- Actuaries
  - Involved an actuary to assist with evaluating the method and assumptions used to estimate the Authority's OPEB obligation and annual cost
- Valuation Specialists
  - Involved our investment pricing desk to assist with verifying the valuation of investments
  - Involved a valuation specialist to assist with evaluating the method and assumptions used to estimate the fair value and effectiveness of the Authority's derivative instruments
- Concurring Review Partner
  - Detail review of financial statements
  - Review of critical audit areas
  - Concurrence on engagement teams planned approach and conclusions

# 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.

## Presumed fraud risk factors under SAS No. 99

- Risk of misstatement relating to revenue recognition
- Risk of management override of controls
  - Journal entries and adjustments
  - Significant accounting estimates
  - Significant unusual transactions

## 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

- There were no audit adjustments for the year-ended December 31, 2011.
- There were no disagreements with management on financial accounting and reporting matters.
- We encountered no difficulties in dealing with management in performing our audit.
- Significant Written Communications Between Auditor and Management:
  - Engagement Letter/Contract
  - Management Representation 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.
- We are independent in accordance with AICPA Standards and Governmental Auditing Standards (Yellow Book Requirements).

## KPMG Reports

- Audit Opinion on the Authority's Financial Statements as of and for the year ended December 31, 2011
- Accountant's Report on Investment Compliance with New York State Guidelines
- Required Communications to the Audit Committee
- Auditor's Report on Internal Control over Financial Reporting and on Compliance on Other Matters
- Management Letter – not applicable this year



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