

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

September 24, 2012

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September 24, 2012

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Authority's offices at 123 Main Street, White Plains, New York at approximately 9:10 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
Gil Quiniones	President and Chief Executive Officer
Judith McCarthy	Executive Vice President and General Counsel
Donald Russak	Executive Vice President and Chief Financial Officer
Karen Delince	Corporate Secretary
William Nadeau	Senior Vice President and Chief Risk Officer
Thomas Concadoro	Vice President and Controller
Lesly Pardo	Vice President – Internal Audit
Dennis Eccleston	Chief Information Officer
Gary Schmid	Manager – Network Services
Lorna Johnson	Assistant Corporate Secretary
Sheila Baughman	Senior Secretary, Corporate Secretary's Office
Ken Deon	Engagement Partner, KPMG
Brendan Kennedy	Senior Manager, KPMG

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

Introduction

Chairman Terrance Flynn welcomed committee members Trustees Nicandri and LeChase, and also Authority senior staff to the meeting. He said the meeting has 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. **Approval of the Minutes**

By motion made and seconded, the Minutes of the Committee's Regular Meeting of July 31, 2012 were approved.

3. **June 30, 2012 Financial Statements**

Mr. Thomas Concadoro submitted the following report:

SUMMARY

“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, 2012 under generally accepted accounting principles. The statements are prepared by staff and are not required to be audited by the Authority’s independent accountants.

BACKGROUND and DISCUSSION

“The results reported in the attached Report (Exhibit ‘3-A’) are consistent with the financial reports presented at the July 2012 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, 2011 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 to facilitate the Audit Committee’s review of the Report.”

Mr. Thomas Concadoro presented highlights of the June 30, 2012 financial statements to the Committee. Mr. Concadoro indicated that net income through June 30, 2012 was \$78 million, which was \$6 million higher than last year. He also reported that the Astoria plant went into operation in mid-2011 and variances in depreciation, interest expense and operations and maintenance expenses were primarily attributable to its operation in 2012. Mr. Concadoro indicated that current assets increased since year-end primarily due to positive results of operations and that long-term liabilities remain stable since there were no major bond issues or retirements.

4. Presentation of 2012 Audit Plan

Mr. Ken Deon, KPMG's Audit Engagement Partner, presented an overview of the Authority's 2012 Audit Plan (Exhibit "4-A"). He introduced Mr. Brendan Kennedy, the Senior Manager on the Audit, and outlined the core engagement audit team assigned to the Authority. Mr. Deon then outlined the objectives of the Audit team and gave a summary of the Authority's management and Audit Committee's responsibilities as well as KPMG's responsibilities in conducting the audit which includes applying government auditing standards and opining on the fair presentation of the financial statements to ensure that they conform to generally accepted accounting principles.

Mr. Brendan Kennedy discussed audit risks and issues. 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 and risk assessment, the audit team looks at areas of risks deemed to be susceptible to financial misstatements. In response to a question from Authority Chairman, John Koelmel, Mr. Kennedy said the auditors examine the highest risk areas which involve management judgment and the application of accounting estimates and which could be complicated or subjective in nature. In response to further question from Authority Chairman Koelmel, Mr. Kennedy said the auditors focus on items that are new and unique and have some level of subjectivity; and that the focus this year will be on revenues and derivatives. In response to a question from Trustee Nicandri, Mr. Kennedy said the auditors work proactively with management on how they will approach transactions related to new projects. Responding to a question from Trustee LeChase Mr. Kennedy said, as part of the audit, the auditors focus on key classes of transactions which includes procurements and related policies. They review key Authority internal controls and processes and apply sampling to test the related transactions. In response to a question from Chairman Flynn, Mr. Kennedy said the auditors apply a statistically-based sampling approach and the number of items that would be examined is based on the overall risk and the effectiveness of the Authority's internal controls. In response to a question from Trustee Nicandri, Mr. Kennedy said that transactions are audited based on the impact they have on the financial statements.

Mr. Kennedy then outlined KPMG's timetable and said that the internal control testing should be completed by mid-November and the year-end testing in January 2013. In response to a question from Trustee

Nicandri, Mr. Russak said the timetable as laid out by KPMG is consistent with the Authority's statutory filing requirements.

5. **Enterprise Risk Management**

Mr. William Nadeau submitted the following report:

SUMMARY

“The Trustees authorized the Enterprise Risk Management (‘ERM’) program in May 2009 to establish a formal and robust process to identify and monitor risks consistently across the Authority.

BACKGROUND and DISCUSSION

“This presentation (Exhibit ‘5-A’) is to inform the Audit Committee of the nature of the program design, its current state and the forward vision of ERM at the Authority.”

Mr. William Nadeau provided highlights of the program to the Committee. In response to a question from Chairman Koelmel, Mr. Nadeau said that he is the Facilitator for the Executive Risk Management Committee. As Senior Vice President and Chief Risk Officer, he reports to the Executive Risk Management Committee and adheres to their guidance, policies and procedures. He said they are in the process of developing a policy with respect to Corporate Risk Management and will be asking the Audit Committee in March 2013 to review that policy and recommend its approval by the Board of Trustees. Mr. Russak added that, in addition to energy commodity risks, the Authority is focusing on enterprise risks, is in the process of assessing those risks and will require the Committee’s approval of recommendations for policy changes and the overall governing policy for the enterprise risk based on the assessments.

6. Internal Audit Activity Report – August 2012

Mr. Lesly Pardo 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, 2012. The Report provides the status of the 2012 Audit Plan as of August 31, 2012, including a summary of completed audits, audits in progress and reports issued since the last Audit Committee meeting in July.

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 is to provide direct oversight of the internal audit function and shall meet at least three times a year with the head of the Office of Internal Audit (‘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 2012 Internal Audit Plan, which was reviewed by the Committee at its meeting in March.

DISCUSSION

1. Highlights as of August 31, 2012

“During the first eight months of 2012, Internal Audit accomplished the following:

- Completed 21 audits and one special project including 16 financial/operational and five (5) information technology audits.
- Four (4) audits were in progress.
- Fifteen (15) audits remaining based on 2012 Internal Audit Plan.
- Issued 19 audit reports containing 47 recommendations to improve internal controls/operational efficiency. Three reports are currently under review.
- All issues and recommendations are being appropriately addressed by management and have either been implemented or are scheduled for implementation.
- No restrictions have been placed on Internal Audit’s work. Full cooperation is being received at all levels.
- No matters that need the Committee’s attention.

2. Audits Completed/In-Progress

- A. Exhibit ‘6-A’ lists all audits in the 2012 Audit Plan and their current status. As of August 31, 2012, approximately 63% of the audits in the Audit Plan have been completed or in progress. The following reports were issued since the last Audit Committee Meeting in July:

<u>Report Title</u>	<u>Report Date</u>
Enterprise Risk Management	05/17/12
NYISO Energy Settlements – LSE	06/30/12
Navigant Consulting Contracts	07/12/12
Information Security – SAP	07/19/12
White Plains Office Data Center	07/26/12
Fleet Operations	07/27/12
Flynn Outage Management	08/09/12
IT Disaster Recovery Plan	08/31/12

Exhibit ‘6-B’ provides a summary of audit reports issued, including audit objectives and findings and/or recommendations.

B. Reports under Review with Management:

Astoria Energy II Project Agreement
 CEC Purchasing/Warehousing
 On Call Engineering Contracts

C. Audits in Progress:

Licensing Operations
 Counterparty Credit
 SAP General Ledger
 SCADA System

3. Internal Audit Plan – Audits Scheduled September - December

There are 15 audits remaining in the 2012 Audit Plan including 12 Financial/Operational and three (3) Information Technology audits and these audits are scheduled over the next four months of 2012. Exhibit ‘6-C’ lists the audits and audit scope.

4. Audit Plan Changes

Added:
 SAP Billing System (ReCharge NY)

Postponed:
 Electronic Record Management System”

Mr. Lesly Pardo provided highlights of the report to the Committee. Responding to a question from Chairman Flynn, Mr. Pardo said the audits are selected based on the result of the risk assessment conducted. He said available resources and recommendations from senior management and the Audit Committee are also considered. He added that the annual planning process of selecting audits for the 2013 Audit Plan will start in November and he will provide a copy of the draft Audit Plan to the Committee in December.

In response to a question from Trustee LeChase, Mr. Russak said that new initiatives such as implementation of the Recharge New York, energy highway and energy efficiency market acceleration programs will be included in the risk assessment that will be conducted for the coming year. Mr. Pardo added that Internal

September 24, 2012

Audit has the expertise internally to conduct the audits on these projects which will also be coordinated with KPMG.

7. **Next Meeting**

The next Regular Meeting of the Audit Committee will be determined.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 10:00 a.m.

A handwritten signature in black ink, appearing to read "Karen Delince". The signature is fluid and cursive, with a large initial "K" and "D".

Karen Delince
Corporate Secretary

September 24, 2012

EXHIBITS

For

September 24, 2012

Meeting Minutes

NEW YORK POWER AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

The accompanying Financial Statements are the responsibility of the Authority's management and reflect all appropriate estimates and all known liabilities. These unaudited financial statements should be read in conjunction with the financial statements and notes contained in the Authority's December 31, 2011 Annual Report.

Thomas J. Concadoro
Vice President and Controller

New York Power Authority
Balance Sheets
(in millions)
(Unaudited)

Assets	June 30, 2012	December 31, 2011
Current Assets:		
Cash and cash equivalents	\$ 56	\$ 65
Investment in securities	1,237	1,159
Interest receivable on investments	6	6
Receivables - customers	230	190
Materials and supplies, at average cost:		
Plant and general	82	80
Fuel	23	23
Miscellaneous receivables and other	140	169
	1,774	1,692
Noncurrent Assets:		
Restricted Funds		
Cash and cash equivalents	21	20
Investment in securities	1,200	1,147
	1,221	1,167
Capital Funds		
Cash and cash equivalents	7	5
Investment in securities	79	93
	86	98
Capital Assets:		
Capital assets not being depreciated	287	288
Capital assets, net of accumulated depreciation	4,557	4,622
	4,844	4,910
Other Noncurrent Assets:		
Unamortized debt expense	12	13
Regulatory assets-risk management activities	37	34
Receivable - New York State	318	318
Deferred charges, long-term receivables and other	564	541
Notes receivable - nuclear plant sale	55	53
	986	959
Total Assets	8,911	8,826
Deferred Outflows		
Accumulated decrease in fair value of hedging derivatives	179	209
	179	209
Total Assets and Deferred Outflows	9,090	9,035
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	380	404
Short-term debt	407	374
Long-term debt due within one year	90	82
Capital lease obligation due within one year	6	5
Risk management activities - derivatives	101	117
	984	982
Long-term debt		
Senior:		
Revenue bonds	1,062	1,064
Adjustable rate tender notes	106	115
Subordinated:		
Commercial paper	122	173
	1,290	1,352
Other Noncurrent Liabilities		
Capital lease obligation	1,223	1,225
Liability to decommission divested nuclear facilities	1,147	1,090
Disposal of spent nuclear fuel	216	216
Relicensing	327	329
Deferred credits and other	409	414
Risk management activities - derivatives	121	132
	3,443	3,406
Total Liabilities	5,717	5,740
Net Position		
Net investment in capital assets	1,877	1,821
Restricted	32	32
Unrestricted	1,464	1,442
Total Net Position	3,373	3,295
Total Liabilities and Net Position	\$ 9,090	\$ 9,035

See accompanying notes to the financial statements.

New York Power Authority
Statements of Revenues, Expenses and Changes in Net Position
(in millions)
(Unaudited)

		Six Months Ended June 30,	
		2012	2011
Operating Revenues			
	Power Sales	\$ 920	\$ 929
	Transmission charges	73	77
	Wheeling charges	262	228
Total Operating Revenues		1,255	1,234
Operating Expenses			
	Purchased power	339	472
	Fuel oil and gas	95	117
	Wheeling	262	228
	Operations and Maintenance	274	230
	Depreciation	113	81
Total Operating Expenses		1,083	1,128
Operating Income		172	106
Nonoperating revenues			
	Investment income	15	19
	Other	55	56
Total nonoperating revenues		70	75
Nonoperating expenses			
	Contribution to New York State	75	65
	Interest on long-term debt	33	36
	Interest-other	60	11
	Interest capitalized	(2)	(2)
	Amortization of debt premium	(2)	(1)
Total nonoperating expenses		164	109
Net Income		78	72
Net Position, January 1		3,295	3,001
Net Position, June 30		\$ 3,373	\$ 3,073

See accompanying notes to the financial statements.

New York Power Authority
Statements of Cash Flows
(in millions)
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 1,215	\$ 1,212
Disbursements for:		
Purchased power	(338)	(476)
Fuel, oil and gas	(99)	(126)
Wheeling of power by other utilities	(255)	(234)
Operations and maintenance	(330)	(234)
Net cash provided by operating activities	193	142
Cash flows from capital and related financing activities:		
Earnings received on construction fund investments	1	1
Issuance of commercial paper	-	2
Repayment of notes	(8)	(8)
Repayment of commercial paper	(20)	(50)
Gross additions to capital assets	(73)	(32)
Interest paid, net	(31)	(35)
Net cash used in capital and related financing activities	(131)	(122)
Cash flow from noncapital-related financing activities:		
Energy conservation program payments received from participants	95	67
Energy conservation program costs	(112)	(74)
Issuance of commercial paper	110	70
Repayment of commercial paper	(101)	(69)
Interest paid on commercial paper	(2)	(1)
Contributions to New York State	(81)	(73)
Energy value sharing agreement	72	72
Net cash used in noncapital-related financing activities	(19)	(8)
Cash flow from investing activities:		
Earnings received on investments	14	13
Purchase of investment securities	(2,196)	(3,886)
Sale of investment securities	2,133	3,889
Net cash (used in) provided by investing activities	(49)	16
Net (decrease) increase in cash	(6)	28
Cash and cash equivalents, January 1	90	87
Cash and cash equivalents, June 30	\$ 84	\$ 115
Reconciliation to net cash provided by operating activities:		
Operating Income	\$ 172	\$ 106
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Provision for depreciation	113	81
Net decrease in prepayments and other	5	21
Net increase in receivables and inventory	(42)	(23)
Net decrease in accounts payable and accrued liabilities	(55)	(43)
Net cash provided by operating activities	\$ 193	\$ 142

See accompanying notes to the financial statements.

NOTES to FINANCIAL STATEMENTS
(Unaudited)

A. General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State in 1931, and is authorized to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits; it generally finances construction of new projects through the sale of bonds and notes to private investors and pays the related debt service principally with revenues from the generation and transmission of electricity. The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, generally to serve five-year terms. Income of the Authority and properties acquired by it for its projects are exempt from taxation.

The Authority's financial statements should be read in conjunction with the financial statements and the notes to the financial statements included in the Authority's Annual Report for the year ended December 31, 2011 and the notes to the December 31, 2011 financial statements are incorporated by reference herein. Such notes are supplemented below. Certain information and note disclosures that are normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The results for the six months ended June 30, 2012 are not necessarily indicative of the results of the entire fiscal year ending December 31, 2012. Certain amounts previously reported have been reclassified to conform to the current presentation.

Accounting Policies

Reference is made to "Summary of Significant Accounting Policies" in Note (2) of the notes to the Authority's December 31, 2011 Financial Statements.

The Authority is subject to the provisions of ASC Topic 980, *Regulated Operations* (FAS No. 71, *Accounting for the Effects of Certain Types of Regulation*). These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process. Based upon the Authority's evaluation of the criteria in the standard and the effect of competition on its ability to recover its cost, the Authority believes the provisions of ASC Topic 980 continue to apply.

In 2012, the Authority retroactively adopted GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides reporting guidance for deferred outflows of resources and deferred inflows of resources to be reported in the statement of financial position in a separate section following assets and liabilities, respectively. This Statement also amends the net asset requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTES to FINANCIAL STATEMENTS
(Unaudited)

B. Investments

The Authority's investments, which comply with the New York State Comptroller's investment guidelines for public authorities, have been restricted to (a) collateralized certificates of deposit, which shall not exceed 25% of the Authority's invested funds, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority is also authorized to enter into repurchase agreements for the purchase and sale of authorized investments. Designated custodians hold all investments in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment, and the agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or \$100 million. Investments are reported in the balance sheet at fair value, using quoted market prices. Realized and unrealized gains and losses on investments are recorded as investment income in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

C. Capital Assets

Capital assets are stated at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Depreciation of capital assets is generally provided on a straight-line basis over the estimated useful lives of the various classes of capital assets. Capital assets, net of accumulated depreciation at June 30, 2012 and December 31, 2011 were:

<u>Type of Plant</u>	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	(in millions)	
Production:		
Steam	\$ 1	\$ 1
Hydro	1,213	1,197
Gas Turbine/Combined Cycle	1,830	1,881
Transmission	945	962
General	722	735
	<u>4,711</u>	<u>4,776</u>
Construction work in progress	133	134
	<u>\$ 4,844</u>	<u>\$ 4,910</u>

NOTES to FINANCIAL STATEMENTS
(Unaudited)

D. Debt

Revenue Bonds

<u>Revenue Bonds Outstanding:</u>	<u>June 30,</u>	<u>December 31,</u>
	<u>2012</u>	<u>2011</u>
	(in millions)	
Principal amount outstanding	\$ 1,083	\$ 1,083
Add: Unamortized premium and discount	32	34
Less: Deferred refinancing costs	10	10
	<u>1,105</u>	<u>1,107</u>
Less: Due within one year	43	43
	<u>\$ 1,062</u>	<u>\$ 1,064</u>

The Revenue Bonds outstanding at June 30, 2012, have an average interest rate of 5.21%, and mature beginning in November 2012 through 2047. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E) of the notes to the financial statements. **There were no issuances, retirements or defeasances of revenue bonds during the six months ended June 30, 2012.**

Adjustable Rate Tender Notes

The Adjustable Rate Tender Notes (ART Notes) were issued pursuant to a resolution adopted April 30, 1985 (subsequently amended). The ART Notes had an average interest rate of .15% effective March 1, 2012 through September 4, 2012 and are scheduled to mature from 2013 to 2020. The holders may tender the ART Notes to the Authority on any adjustment date. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E) of the notes to the financial statements. As of June 30, 2012 and December 31, 2011, the Authority had ART Notes outstanding of \$115 million and \$123 million, respectively, of which \$9 million and \$8 million, respectively, were current and classified as long-term debt due within one year.

The Authority has a revolving credit agreement (RCA) with The Bank of Nova Scotia to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the ART Notes. The amount of the RCA is equal to the outstanding principle of the ART Notes and the RCA terminates on September 1, 2015. The RCA provides for interest on outstanding borrowings at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. At June 30, 2012, there were no outstanding borrowings under this RCA.

Commercial Paper

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue a separate series of notes (CP Notes) maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of \$400 million (Series 1); \$450 million (Series 2); \$350 million (Series 3); and \$220 million (Series 4). It is the Authority's intention to remarket the CP Notes as they mature with their ultimate

NOTES to FINANCIAL STATEMENTS
(Unaudited)

retirement dates planned to range from 2012 to 2022. There were no Series 4 Notes outstanding as of June 30, 2012.

The Authority has a revolving line of credit agreement to provide liquidity support for the Series 1, Series 2 and Series 3 CP Notes with a syndicate of banks under which the Authority may borrow up to \$550 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1, Series 2 and Series 3 CP Notes. This revolving line of credit expires January 20, 2014. At June 30, 2012, there were no outstanding borrowings under this line of credit agreement.

Under the Extendible Municipal Commercial Paper Note Resolution, adopted December 17, 2002, as subsequently amended and restated, the Authority may issue a series of notes, designated Series 1 (EMCP Notes) maturing not more than 270 days from the original date of issue, up to a maximum amount outstanding at any time of \$200 million. It is the Authority's intention to remarket the EMCP Notes as they mature with their ultimate retirement dates planned to range from 2012 to 2023.

The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed marketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

Long-Term CP Notes outstanding:	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	(in millions)	
Series 1 –EMCP	\$ 75	\$ 78
Series 2 CP Notes- Tax Exempt	65	82
Series 3 CP Notes- Taxable	20	44
	<u>\$ 160</u>	<u>204</u>
Less: Due within one year	38	31
	<u>\$ 122</u>	<u>\$ 173</u>
Short-Term CP Notes outstanding (1):	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	(in millions)	
Series 1 CP Notes- Tax Exempt	\$ 300	\$ 374
Series 2 CP Notes- Tax Exempt	85	–
Series 3 CP Notes- Taxable	22	–
	<u>\$ 407</u>	<u>\$ 374</u>

(1) The Authority currently issues short-term CP Notes to finance its energy services programs.

NOTES to FINANCIAL STATEMENTS
(Unaudited)

E. Risk Management and Hedging Activities

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance purchase protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. Insured losses by the Authority did not exceed coverage for any of the three preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority also self-insures its health, dental and workers' compensation insurance programs and pursues subrogation claims against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage the impacts of interest rate, energy prices and fuel cost fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives the Authority's Trustees have authorized the use of various interest rate, energy, and fuel hedging derivative instruments that are considered financial derivatives under GASB issued GAS No. 53 "*Accounting and Financial Reporting for Derivative Instruments*" (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the balance sheet as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred inflows or deferred outflows, except for changes in fair values of interest rate cap hedging derivative instruments, which are recognized in interest expense. The fair values of renewable energy contracts, designated as investment derivative instruments, are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swap contracts take into consideration the prevailing interest rate environment and the specific terms and conditions of each contract. The fair values were estimated using the zero-coupon discounting method. The fair value of interest rate cap contracts were measured using an option pricing model which considers certain variables such as volatilities, time and underlying prices. The fair value for over-the-counter energy, renewable energy and natural gas transportation contracts are determined by the monthly market prices over the lifetime of each outstanding contract using the latest end-of-trading-month forward prices published by Platts or derived from pricing models based upon Platt's prices.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative contracts is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative contract is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative contract alone. In January, 2011, the Authority's Board of Trustees adopted a Policy for the Use of Interest Rate Exchange Agreements which provides the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

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Since 2010, the Authority has imposed thresholds, based on agency-published credit ratings and other criteria, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors its counterparty's market-implied credit ratings and financial ratios and can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of June 30, 2012 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following tables show the fair value of derivative contracts as of June 30, 2012 and December 31, 2011 and changes in fair value during the six months ended June 30, 2012:

Derivative instrument description	Fair Value Balance December 31, 2011	Net Change in Fair Value	Fair Value Balance June 30, 2012	Type of Hedge or Transaction	Financial Statement Classification for Changes in Fair Value	Notional Amount June 30, 2012	Volume
(in millions, except notional amounts)							
Interest rate contracts (1)	\$ (19.8)	\$ 2.3	\$ (17.5)	Cash Flow	Deferred inflows	480,240,000	USD
Energy Contracts (2)	(189.4)	27.9	(161.5)	Cash Flow	Deferred inflows	5,897,300	MWh
Renewable Energy Contracts (3)	(33.6)	(3.5)	(37.1)	Investment	Regulatory asset	997,313	MWh
Total	\$ (242.8)	\$ 26.7	\$ (216.1)				

(1) The Authority uses interest rate swap and interest rate cap contracts to hedge interest rate risks. The Authority has outstanding forward interest rate swaps used to fix interest rates on its long-term Series 2 CP obligation, which was issued in 2002 to refinance the then outstanding Series 1998 B Revenue Bonds that were required to be tendered in 2002 (the 2002 Swaps). The outstanding Series 2 CP obligation was \$65.5 million as of June 30, 2012 related to this transaction. On the 2002 Swaps, the Authority pays interest based on a fixed rate of 5.123% and receives interest based on the Securities Industry and Financial Markets Association (SIFMA) index quarterly through February 15, 2015.

The Authority also has outstanding a forward interest rate swap it entered into in September 2006 to fix the interest rates of its ART Notes at 3.7585% on an initial notional amount of \$156 million with the notional amount declining to \$75 million by September 2016. As of June 30, 2012, the outstanding notional amount of this forward interest rate swap was approximately \$114.8 million. On this forward interest rate swap, the Authority pays interest based on a fixed rate of 3.7585 % and receives interest based on 67% of six-month LIBOR through September 2016.

The Authority has outstanding an interest rate cap purchased in January 2011 to limit its exposure to rising interest rates relating to \$300 million of its Series 1 CP Notes. The interest rate is

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capped at a 5.5% based on the SIFMA Index through January 2013. There were no changes in the fair value of this interest rate cap during the six months ended June 30, 2012

(2) The Authority uses and has outstanding medium-term forward energy swaps to fix the cost of energy purchases in the NYISO electric market to meet certain NYC Governmental customer load requirements through 2014. In 2012, the Authority purchased energy swaptions to limit its price exposure related to merchant sales from production at certain operating facilities in the NYISO electric market for certain periods in years 2013 and 2014.

(3) The Authority has outstanding long-term forward energy swaps and purchase agreements for a portion of the output of the counterparties' wind-farm-power-generating facilities between 2008 and 2017. The purpose of these agreements was to assist specific governmental customers in the acquisition and investment in wind power and related environmental attributes to satisfy certain New York State renewable energy mandates. The fixed price ranges from \$74 to \$75 per megawatt and includes the purchase of the related environmental attributes. The Authority anticipates the recovery or distribution of any net settlements through specific contractual agreements with customers.

Other Considerations

The Authority from time to time may be exposed to any of the following risks.

Basis risks. The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based on indexes which differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

Tax risks. The Authority is at risk that a change in Federal tax rates will alter the relationship between the interest rates incurred on its ART Notes and LIBOR Index used in the pay-fixed receive-variable interest rate swap transaction.

Rollover risks. The Authority is exposed to rollover risk on hedging derivative instruments that terminate prior to the maturity of the Authority's ART Notes, which these derivative instruments hedge. When the derivative instruments terminate the Authority will be re-exposed to the variable interest rate risk being hedged by the derivative instruments. The termination of the interest rate swaps on September 1, 2016 exposes the Authority to rollover risk since the hedged debt matures on March 1, 2020.

Termination risks. The Authority or its counterparties may terminate a derivative instrument agreement if the either party fails to perform under the terms of the contract. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right

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to terminate only as a result of certain events. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market Access Risks. The Authority remarkets its CP Notes on a continuous basis and its ART Notes every March 1 and September 1. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support both the CP Note and ART Note programs. See note (D) of the notes to the financial statements.

F. Power for Jobs and Recharge New York Power Programs

In 1997, legislation was enacted into New York law which authorized the Power for Jobs (PFJ) Program to make low-cost electric power available to businesses, small businesses and not-for-profit organizations. The PFJ Program power was sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which were based on the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" (PFJ Rebates). Generally, the amount of such PFJ Rebates for a particular customer was based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. The PFJ Program had been extended numerous times and pursuant to recent legislation, discussed in the next paragraph below, the PFJ Program ended on June 30, 2012.

In March 2011, Chapter 60 of the laws of 2011 established the "Recharge New York Power Program" (RNYPP). The RNYPP is a new, permanent power program, administered by the Authority and the EDPAB, which has as its central benefit 910 MW of power comprised of 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects (which power, until August 1, 2011, had been provided to residential and farm customers of three upstate utilities) and up to 455 MW of other power procured or produced by the Authority. The 910 MW of power is available to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years effective no sooner than July 1, 2012.

The RNYPP legislation also temporarily extended the PFJ and Energy Cost Savings Benefit (ECSB) Programs through June 30, 2012 at which time the two programs ended and were replaced by the RNYPP. Those PFJ and ECSB Program customers that apply but do not receive RNYPP allocations are eligible to apply for certain "transitional electricity discounts," which will decline to zero by June 30, 2016, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized "transitional electricity discount" payments of up to \$9 million for the year July 1, 2012 – June 30, 2013.

The legislation also authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of \$100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, \$70 million for the fourth year, \$50 million

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for the fifth year, and \$30 million each year thereafter for the purpose of funding a residential consumer discount program for those customers that had received the hydropower that is being utilized in the RNYPP. The 455 MW of hydropower was withdrawn by the Authority on August 1, 2011. The legislation further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of such power into the wholesale market or, as necessary, internal funds, to fund the residential consumer discount program. The Authority's Trustees have authorized the release of funds in support of the residential consumer discounts program totaling cumulatively \$150 million for the period of August 2011 to January 2013. The Authority supplemented the market revenues through the use of internal funds, from the start of the program through June 30, 2012, totaling cumulatively \$33 million and expects to supplement approximately \$25 million for the six month period ended December 31, 2012. For the six months ended June 30, 2012, operations and maintenance expenses included \$50 million of residential consumer discounts.

G. Financial Assistance to the State

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by State legislation (generally budget legislation), and (ii) satisfy the requirements of the Bond Resolution. In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority "as deemed feasible and advisable by the trustees," to make a series of "voluntary contributions" into the State treasury in connection with the Power for Jobs (PFJ) Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, discussed in note (F) of the notes to the financial statements above. Cumulatively through June 30, 2012, the Authority has made voluntary contributions to the State totaling \$475 million in connection with the PFJ Program and \$417 million unrelated to the PFJ Program. The 2012 (\$75 million, of which \$60 million and \$15 million was paid in January and June 2012, respectively) and the 2011 (\$65 million) contributions to the State, which are not related to the PFJ Program, were recorded as nonoperating expenses in the six months ended June 30, 2012 and 2011 statements of revenues, expenses and changes in net position. Pursuant to authorizing legislation enacted in 2012, the Authority, if deemed feasible and advisable by its Trustees, was authorized to make an additional voluntary contribution to the State unrelated to the PFJ program of \$65 million for the 2012-2013 State fiscal year. Of this amount, in June 2012, the Authority's Trustees authorized the payment of \$15 million, which was paid in June 2012, with the remainder to be considered for payment by January 2013.

In addition to the authorization for voluntary contributions, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed to transfer approximately \$215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by

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March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget \$103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014.

The obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the monies earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The Authority has classified the transfers of Assets A and B (\$318 million) as a long-term loan receivable. In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately \$5 million per year based on current estimates but the waiver is limited to a maximum of \$45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately \$8 million per year but the waiver would be limited to a maximum of \$43 million for the period. The present value of the waivers approximates the present value of the lost interest income.

H. Pension Plans and Other Postemployment Benefits

Pension Plans

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-public-employer, defined benefit retirement plans. The ERS is a contributory plan, except for employees who joined the ERS on or prior to July 27, 1976. The Authority also provides its retirees with Other Postemployment Benefits (OPEB). Refer to the Authority's 2011 Annual Report for further information including plan benefits, employer contributions, employee eligibility, vesting, contributions, and OPEB.

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Current law requires, among other things, a minimum annual contribution to be made by employers to the ERS. Under current law, the State Comptroller certifies annually the rates expressed as portions of payroll of members, which are used in computing the contributions required to be made by employers to the pension accumulation fund.

The required contributions to the ERS were \$21 million, \$17.1 million and \$9.6 million, for the ERS's fiscal years ended March 31, 2012, 2011 and 2010, respectively, (paid on or about December 15, 2011, 2010 and 2009). The contributions made by the Authority to the ERS were equal to 100% of the contributions required for each year. The Authority's pension contribution to the ERS for fiscal year ended March 31, 2013 is expected to be approximately \$26 million. During 2008, the global decline in financial markets adversely impacted state pension investment market values, including the ERS, causing contributions to increase significantly. The average contribution rates relative to payroll for the ERS fiscal years ended March 31, 2012 and 2013 have been set at approximately 16% and 18%, respectively. If ERS's investment market values do not recover, significant increases in the annual contributions to ERS in subsequent years are expected.

Other Postemployment Benefits (OPEB)

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or upon death while employed by the Authority.

Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to establish a trust for OPEB obligations (OPEB Trust), with the trust fund to be held by an independent custodian. The Authority funded the OPEB Trust with contributions totaling \$225 million. Plan members are not required to contribute to the OPEB Trust. In 2011, the Authority's Trustees approved on-going annual funding of the OPEB Trust in order to strengthen the Authority's financial position. A contribution of \$40 million was made to the OPEB Trust during 2011. The Authority expects to make a contribution to the OPEB Trust prior to December 31, 2012 based on its 2012 actuarial valuation report.

The Authority's OPEB costs were \$16 million respectively for the six months ended June 30, 2012 and June 30, 2011. The Authority's actuarial valuations are performed biennially. The Authority's last valuation was performed in 2010 and reported an actuarial accrued liability of \$400 million. As of June 30, 2012 and December 31, 2011, the value of the OPEB Trust totaled \$300 million and \$282 million, respectively.

I. Nuclear Plant Divestiture and Related Matters

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 ("IP3") and James A. FitzPatrick ("JAF")) to two subsidiaries of Entergy Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest bearing notes, including a Fuel Payment Note, totaling \$967 million (subsequently reduced by closing adjustments to \$956 million), maturing over a 15-year period with November installment payments due each year. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%,

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was \$680 million. As of June 30, 2012 and December 31, 2011, the present value of the notes receivable inclusive of related accrued discount was \$70 million and \$68 million, respectively. The long-term portion (\$55 million and \$53 million at June 30, 2012 and December 31, 2011, respectively) of these notes receivables is reported in other noncurrent assets in the balance sheet.

As part of the Authority's sale of its nuclear plants to the Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. These contracts provided that the Entergy Subsidiaries share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). The VSAs, amended in October 2007, now provide for the Entergy Subsidiaries to pay the Authority a set price for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of \$72 million. The Authority has received the maximum annual payments relative to calendar years 2011 and 2010. The payments, related to the calendar years ending after December 31, 2011, are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. As a result of competitive bidding, and not related to the sale of the nuclear plants, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 200 MW during the period 2009 to 2013.

The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note (G) "Financial Assistance to the State" of the notes to the financial statements, relating to a temporary transfer of such funds to the State). As of June 30, 2012, the liability to Entergy totaled \$216 million.

In connection with the nuclear plants' sale, each of the Entergy Subsidiaries entered into a Decommissioning Agreement with the Authority relating to responsibility for decommissioning the nuclear plant acquired by it. The Decommissioning Agreements deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority retains contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund. The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amounts applicable to the plant. If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost amount or the plant's Fund amount.

Decommissioning Funds of \$ 1,147 million and \$1,090 million are included in restricted funds and other noncurrent liabilities in the balance sheets at June 30, 2012 and December 31, 2011, respectively.

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J. Other Commitments and Contingencies

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its eleven NYC Governmental Customers, including the Metropolitan Transportation Authority, The City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers. The Authority provides the customers with indicative electricity prices for the following year reflecting market -risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements.

For 2011 and 2012, the NYC Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above.

With the customers' guidance and approval, the Authority will continue to offer up to \$100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

As a result of a Request for Proposals for Long-Term Supply issued in March 2005, Authority staff entered into negotiations for the execution of a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC (HTP) to serve the long-term requirements of the Authority's NYC Governmental Customers through the transmission rights associated with HTP's proposed transmission line (Line) extending from Bergen County, New Jersey, to Consolidated Edison's West 49th Street substation.

On April 15, 2011, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP and the line is currently under construction. The FTCPA will provide the Authority with 75% of the firm transmission capacity of 660 MW Line for 20 years. The Authority's obligation to make payments under the FTCPA will begin upon commercial operation, which is expected in the summer of 2013. Under the FTCPA, the Authority also will pay the costs of certain interconnection and transmission upgrades associated with the Line once

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it enters into service, estimated to total approximately \$200 million. The Authority is currently in negotiations with certain of its NYC Governmental Customers and other third parties regarding partial recovery of the costs of the Line. It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20 year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately \$45 million to \$65 million per year during the first five years of commercial operation. The Authority expects, based on current projections, that it will be able to continue to meet its debt service coverage ratio, cash and reserve requirements in the future; however, there can be no assurance such requirements will be met.

In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 2007, issued a nonbinding request for proposals for up to 500 MW of in-city unforced capacity and optional energy to serve the needs of its NYC Governmental Customers. This process, which included approval of the NYC Governmental Customers resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of \$1.243 billion, which reflects the present value of the monthly portion of lease payments allocated to real and personal property as of June 30, 2012. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). By early 2008, the Authority had entered into a new supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

Tropical Storm Irene

In late November 2011, approximately 14 notices of claim were received by the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in late August 2011. The notices of claim essentially claim that property and other damages allegedly incurred by certain landowners were the result of the Authority's negligence in its operations at its Blenheim-Gilboa Pumped Storage Power Project located on the Schoharie Creek in Schoharie County, New York. In addition, in mid-January 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") filed a motion in Schoharie County Supreme Court requesting leave to serve late notices of claim on the Authority. The Municipalities similarly allege in their late notices of claim that they sustained property damage, as well as lost tax revenues, as a result of the Authority's negligence in its operations at the Blenheim-Gilboa Pumped Storage Power Plant. In late February 2012, a private landowner filed a similar motion in such court. While the Authority cannot presently predict

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whether and to what extent any lawsuits will be initiated based on such notices of claim or similar claims that may be filed in the future, or the outcome of any such litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. In May 2012, the court granted claimants' respective petitions to file late notices of claim on the Authority. Claimants filed said notices of claim on the Power Authority in late May 2012.

Regional Greenhouse Gas Initiative and Air Pollution Rule

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by Northeastern and Mid-Atlantic states (including New York) to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn, SCPPs, and 500-MW Plant are subject to the RGGI requirements as is AEII. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

During the last half of 2011, the Environmental Protection Agency ("EPA") issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. In December 2011, the U.S. Court of Appeals (D.C. Circuit) granted a stay of the CSAPR pending the court's resolution of numerous petitions for review and in the interim, the court indicated that the EPA should continue to enforce its Clean Air Interstate Rule ("CAIR") which the CSAPR was designed to replace. By decision issued August 21, 2012, the court vacated the CSAPR; directed the EPA to develop a replacement rule; and directed that the CAIR continue to be enforced pending the development of the replacement rule. It is uncertain whether the EPA will seek to appeal the court's decision. The Authority has been able to operate its fossil plants and the Astoria Energy II plant within the allocated allowances under the CAIR. In the event the CSAPR as promulgated by the EPA ultimately is implemented, the Authority anticipates that operation of its fossil plants and the Astoria Energy II plant would not be impacted.

Wind and Solar Initiatives

In December 2009, the Authority issued a non-binding RFP for development of a utility scale, offshore wind power project in the range of 120 MW to 500 MW to be located within New York State waters of Lake Erie and/or Lake Ontario. The RFP indicated that the Authority would purchase the full output of the project under a long-term power purchase agreement. In June 2010, the Authority announced that five proposals had been received in response to the RFP. Based on a multi-disciplinary review, which included among other things, costs, economic development benefits, community response, and environmental impacts, in September 2011, the Authority's Trustees voted to end the competitive solicitation process for the proposed Great Lakes Offshore Wind Project (GLOW) without awarding a contract for project development.

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Con Edison, the Long Island Power Authority (LIPA), the City of New York and

NOTES to FINANCIAL STATEMENTS (Unaudited)

other New York City and New York State governmental entities, is evaluating the potential development of between 350 MW up to 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation.

In January 2010, the Authority issued an RFP for a 100 MW Statewide Solar Photovoltaic initiative seeking pricing for solar energy and related environmental attributes from 100 MW of solar power capacity to be installed statewide by 2014. In March 2012, the Authority's Trustees determined to close the 100 MW solar initiative competitive solicitation without an award. At that time, the Trustees also authorized up to \$30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects.

Other Developments

Western New York Power Proceeds Allocation Act

On March 30, 2012, the Governor signed into law the Western New York Power Proceeds Act which directs net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project to be deposited into the Western New York Economic Development Fund (Fund) as deemed feasible and advisable by the Authority's Trustees. The legislation repealed Chapter 436 of the Laws of 2010 which had gone into effect on August 30, 2010 and had created a somewhat similar program. "Net earnings" are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara project that qualify under applicable criteria. The legislation establishes a five member allocation board to be appointed by the Governor. In June 2012, the Authority's Trustees approved the release of up to \$20 million in net earnings, calculated for the period August 30, 2010 through December 31, 2012 as provided in the legislation, for deposit into the Fund.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to \$30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development.

Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DF Act") which addresses, among other things, interest rate and energy swap transactions of the type in which the Authority engages ("Swaps"). Many of the requirements and processes in this area are to be set forth in regulations promulgated by the Commodities Futures Trading Commission ("CFTC"). Depending on the ultimate resolution of numerous issues, which is uncertain, including whether and to what extent Swaps are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; whether and to what extent Swaps entered into prior to the enactment of the DF Act are required to be collateralized; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact of the DF Act on the Authority's liquidity and/or future risk mitigation activities could be significant.

NOTES to FINANCIAL STATEMENTS
(Unaudited)

While it is anticipated that the Authority will not be required to post collateral in connection with its Swaps, in the event such regulations are applied retroactively to Swap positions predating the enactment of the DF Act, it could require the Authority to post as much as \$216 million in collateral as of June 30, 2012 to maintain its open hedge positions. The Authority has sufficient liquidity to post such collateral, if required.

New York Energy Highway

In his January 2012 State of the State address, the Governor announced the “New York Energy Highway” initiative which is envisioned as a public-private partnership to upgrade and modernize the State’s electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority’s President and Chief Executive Officer, Gil Quiniones. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. In response, in May 2012, the “New York Transmission Owners” (NYTOs), comprised of the State’s largest private utilities, the Long Island Power Authority, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, and ownership of new transmission projects; and the NYTOs proposed to the Task Force a number of transmission projects that would be undertaken by the NY Transco entity. In all, approximately 85 organizations responded to the Task Force’s request for information and the responses included a large number of different generation and transmission project proposals. Following its review of the responses, the Task Force is expected to issue an action plan in the Fall of 2012 with recommendations for moving forward.

Other Actions or Claims

In addition to the matters described herein, other actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority’s insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority.



cutting through complexity

Power Authority of the State of New York

2012 Audit Plan

Meeting with the Audit Committee

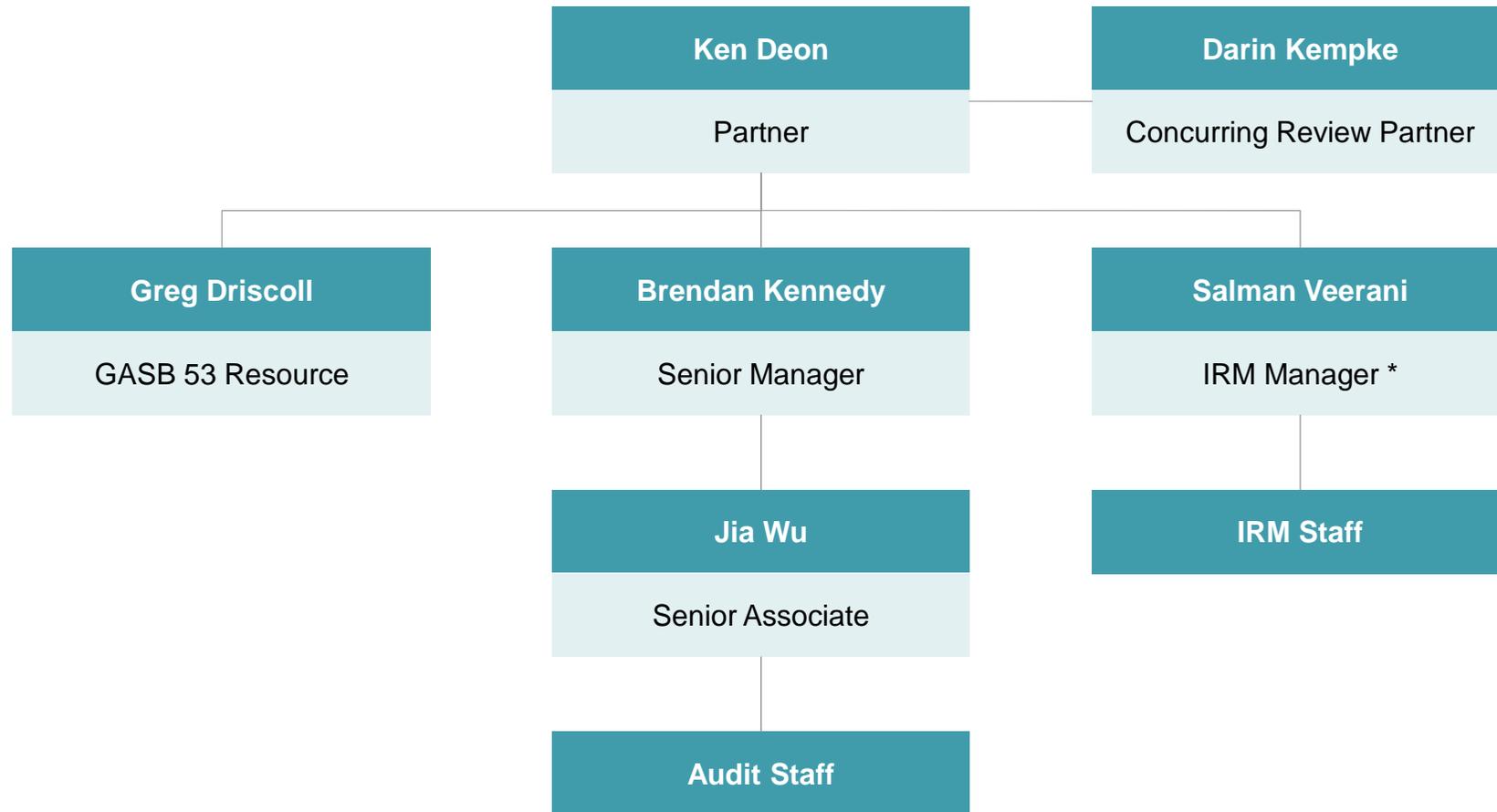
September 24, 2012



Agenda

■ KPMG engagement team	2
■ 2012 audit objectives	3
■ Management and audit committee responsibilities	4
■ KPMG responsibilities	5
■ KPMG's audit approach and methodology	6
■ Determination of audit approach	7
■ Audit risk	8
■ Entity-wide and monitoring controls	9
■ Audit risks and issues	10
■ Substantive audit procedures	12
■ OMB circular A-133 audit	14
■ Consideration of fraud risk	15
■ Timetable	17

KPMG engagement team



* Information Risk Management.

2012 audit objectives

To Opine on:

- Fair presentation, in all material respects of the Power Authority of the State of New York's, d.b.a. the New York Power Authority (NYPA) December 31, 2012 financial statements in accordance with U.S. GAAP

To Comply with:

- 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's approach to quality control

To Support Management by:

- Bringing to management's attention weaknesses in, and suggestions for improving NYPA's internal accounting controls and financial reporting policies and procedures
- Advise NYPA on the interpretation and implementation of new accounting or reporting requirements
- Maintaining proactive working relationships with senior management and the Audit Committee

We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud

Other Deliverables:

- Investment Guidelines Compliance Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Required Communications to the Finance and Audit Committee

Management and audit committee responsibilities

General Responsibilities

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Identifying and confirming that NYPA 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:

- Disclose all of significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect NYPA'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

Management and the audit committee are responsible for:

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

The audit committee is responsible for:

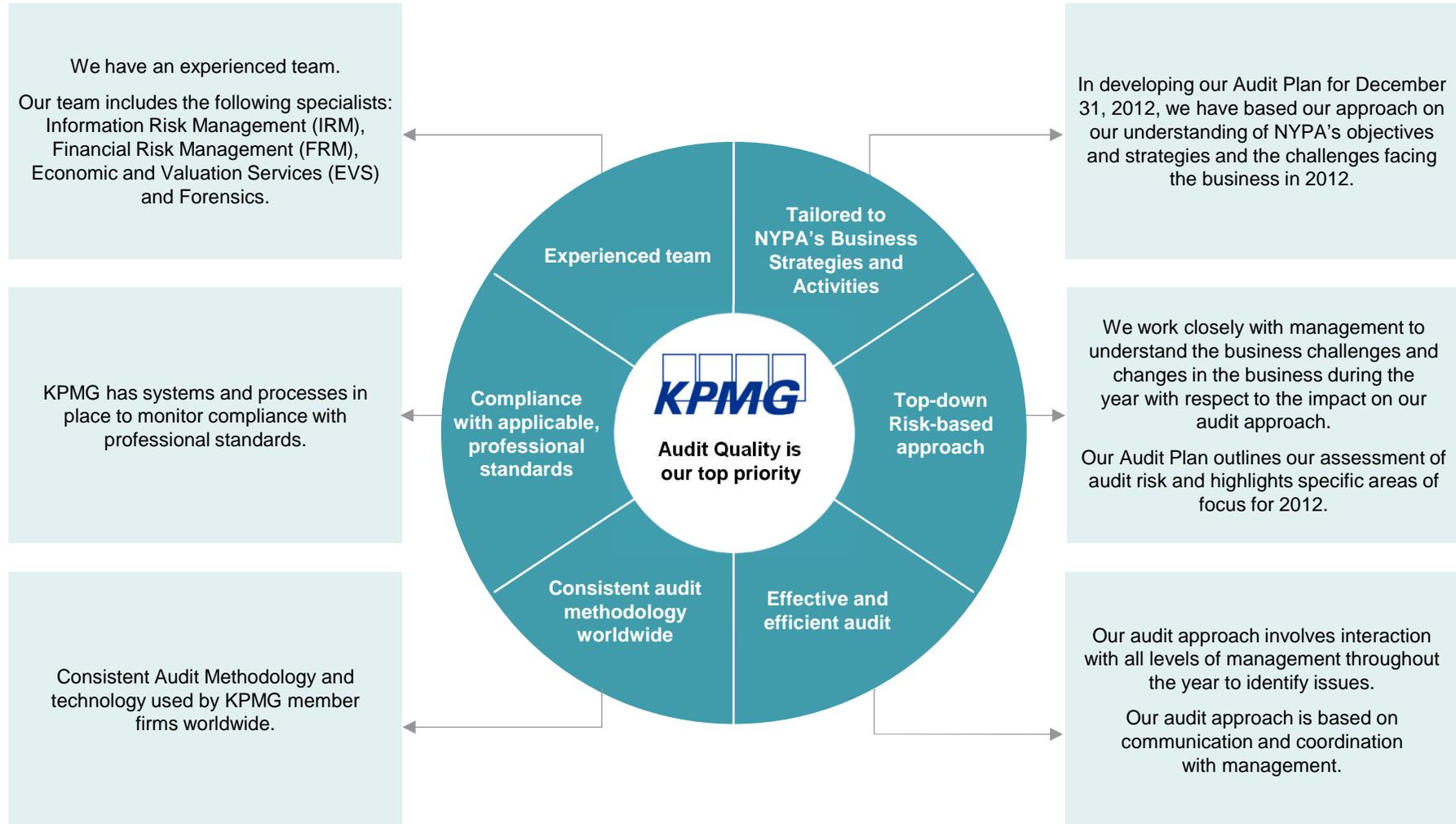
- Oversight of the financial reporting process and internal control over financial reporting

KPMG responsibilities

Responsibilities:

- We have a responsibility to conduct our audit in accordance with professional standards
- We comply with the ethical standards of the CPA societies, state boards of accountancy, and the Comptroller General of the United States
- We plan and perform our audit with an attitude of professional skepticism
- In carrying out this responsibility, we plan and perform the audit to obtain reasonable—not absolute—assurance about whether the financial statements are free of material misstatement
- We have no responsibility to obtain reasonable assurance that misstatements that are not material are detected
- We design tests of controls to obtain sufficient evidence to support the auditor's control risk assessments as part of the audit of the financial statements

KPMG's audit approach and methodology



Determination of audit approach

We design our procedures based on an entity-wide risk assessment

KPMG's risk assessment process includes our consideration of the following factors:

- Identification of significant accounts and transactions
- Significant or unusual events or transactions
- Changes in internal controls or the control environment
- Restructurings and/or business combinations
- Results of prior year audits
- Internal control deficiencies
- Changes in management
- External environment factors
- Fraud risk factors

Audit risk

Audit risk is defined as the combination of:

- The possibilities that material errors or irregularities may occur in NYPA's financial records
- That such errors will not be discovered through NYPA's own controls
- Audit procedures performed will fail to uncover them

KPMG's approach to reduce audit risk to an acceptably low level is to focus on understanding and assessing:

- NYPA's organization and operational risks
- NYPA's "tone at the top", control environment and monitoring controls
- NYPA's core business processes and related internal controls
- NYPA's significant accounts and disclosures

Detailed procedures at NYPA to mitigate audit risk to an acceptable level include:

- Evaluation and review of entity level controls at NYPA, and the control environment including fraud at NYPA
- Evaluation of management's risk assessment process to assess and test key controls over financial reporting
- Test of controls and tests of details over significant NYPA risks, accounts and disclosures as identified

Entity-wide and monitoring controls

Audit approach is to rely on NYPA's key entity-level and senior management's monitoring controls identified as follows:

- A Code of Conduct has been effectively implemented and the control environment has appropriate policies in place
- A Board of Trustees and an Audit Committee exist that is independent of management
- Management has undertaken a detailed risk assessment and monitoring controls exist to mitigate the risks identified
- Management has controls in place to ensure effective compliance with laws and regulations including areas impacting financial reporting
- Management has information and reporting systems that are responsive to achieving entity-wide and activity level objectives and produces the necessary information to manage NYPA's operation
- Results of NYPA's operations are measured against objectives and expectations including analyzing variances and key performance indicators on a monthly basis
- Key controls exist over the safeguarding of NYPA's assets

Scope for 2012 assumes reliance on entity level controls to ensure a top down approach

Audit risks and issues

The following are significant audit risks and issues:

Audit risks	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 ■ Access to credit markets ■ Derivative collateral requirements ■ Fair value of assets ■ Accounts receivable aging and related allowance for doubtful accounts
Management judgments and accounting estimates	<p>Appropriate methodologies and assumptions in assessing exposures/liabilities: ISO Reserves, Bad Debt Reserves, OPEB obligations, self insured reserves, legal injuries and damage</p>
Fuel, purchased power, and interest rate derivatives	<p>Proper determination of fair value and accounting and disclosure requirements as required by GASB 53</p>
Revenue recognition	<p>Appropriate revenue recorded as energy is delivered including unbilled revenue accounting</p>
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>

Enterprise Risk Management (ERM)



NYPA Audit Committee
Status Summary
September 24, 2012

ERM - Background

1

- Manage risk by taking the entire organization (enterprise) into consideration
- ERM, the coordinated approach – identify, assess and manage risks across the enterprise
- All-inclusive and accurate perspective on magnitude, importance and correlative nature of risks faced
- Informed decisions top-down, risk-based corporate planning process
- Align risk with strategy
- Formal ERM structure enhances quality and completeness of risk analysis

Risk

2

- Any uncertain future event or condition that could adversely impact the Authority's operational or financial performance
- Task at hand
 - Identification of risks to include NYPA's overall risk profile
 - Determination of risk significance
 - Implement, manage and monitor risk mitigation plans
 - Senior management monitor and control

ERM Development

3

- **Trustee Authorization in May 2009**
 - Role of Audit Committee
- **ERM organization formed**
- **Risk Inventory**
- **Classification of Risks – Impact & Probability**
- **Quantitative and Qualitative**
 - Models to enhance ability to more strongly predict potential outcomes
 - Linkage to current Corporate Scorecard metrics & thresholds
 - Event risks
 - Soft-strategic risks

ERM – Vision

4

- Manage and reduce financial and other liability exposure
- Provide executive management with a continual perspective of NYPA’s steady state exposures
- Translate risk assessments into risk-informed views
- Integrate forward enterprise-wide risk assessments and metrics with financial projections and overall NYPA performance tracking

ERM – Next Steps

5

- **ERM Governance**
 - Executive Risk Management Committee (ERMC)
 - Audit Committee and Full Board
- **Leadership**
 - CFO and CRO
 - Senior leader of ERM Team
- **Policies and Procedures**
 - Under review for submission at next Audit Committee
 - Reconfirm with Board
- **Reporting Protocol**

**2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
AUDIT PLAN UPDATE**

Exhibit A

FINANCIAL

- SENY Government Services Program
- Salary Administration
- Generation Resource Management (CI)
- Hydro Revenues (CI)
- ReCharge NY Customer Revenues
- SENY Long-Term Agreement (CI)
- NYISO Energy Settlements – Load Serving Entities (CI)
- Public & Governmental Affairs Expenditures
- Astoria Energy II Project Agreement (CR)
- Fleet Operations (CI)
- Headquarters ProCard (CI)
- Purchasing/Warehousing CEC (CR)
- B-G Finance & Administration (CI)
- NYISO Installed Capacity
- NYISO Transmission Settlement

INFORMATION TECHNOLOGY

- Mobile Device Security and Controls (CI)
- SAP – General Ledger (IP)
- (1) • Electronic Record Management System
- Energy Management System
- Information Security – SAP (CI)
- SCADA System (IP)
- SAP Business Intelligence (CI)

(1) = Audit Postponed.

(2) = Audit Added.

INFORMATION TECHNOLOGY (Continued)

- IT Disaster Recovery Plan (CI)
- WPO Data Center (CI)
- SAP Business Planning Consolidation
- (2) • SAP Billing System (ReCharge NY)

OPERATIONAL/COMPLIANCE

- ReCharge NY Program Management
- Energy Services Operations
- Power Supply Operational Planning (CI)
- Public Authorities Law (PAL) Compliance
- Counterparty Credit (IP)
- St. Lawrence Life Extension (CI)
- Enterprise Risk Management (CI)
- Licensing Operations & Compliance (IP)
- SENY Outage Management (CI)
- Central Region O&M (CI)
- Safety Program (CI)
- Small Clean Power Plants O&M
- Configuration Management Program

OTHERS

- Transmission Consulting Project (CI)
- Vendor Contract Audits (IP)
- Assistance to KPMG
- Hydro Customer Job Commitment Audits

CI = Completed and Report Issued.

CR = Completed and Report under Review with Management.

IP = In-Progress.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Enterprise Risk Management	<p>The objectives of the audit were to confirm:</p> <ul style="list-style-type: none"> -Existence and appropriateness of program governance documents. -Adequacy of communication to key stakeholders of program objectives, activities and results. -Utilization of technology to track and monitor specific risks. -Existence of mitigation plans for critical risks. 	<ul style="list-style-type: none"> -Program has not yet been fully established as outlined in the Trustee authorization. -Draft policy and procedures should be finalized to reflect the current direction of the Program. -The organizational structure for the Enterprise Risk function should be re-evaluated. -The purpose and authority of the Enterprise Risk Management Committee and the Executive Risk Management Committee should be clarified. -Establish ongoing reporting protocol that includes communicating critical risks and associated mitigation plans.
Navigant Consulting, Inc.	<p>Determine that vendor charges were supported and in agreement with the terms of the contracts and adequate administrative controls are in place.</p>	<ul style="list-style-type: none"> -Hours and hourly rates were billed in accordance with the contracts. -Contractor travel and entertainment expenses were not consistently billed in accordance with the terms of the contract. -We estimated potential contract overbilling for travel and entertainment expenses at \$24,600.
Information Security – SAP	<p>Test and evaluate the SAP Security to determine if it is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices.</p>	<ul style="list-style-type: none"> -Overall SAP information security, access controls and standards provide adequate protection for the SAP Information, programs and system. -Remove all SAP user accounts that do not belong to current NYPA employees or NYPA contractors. -Remove generic/shared SAP user accounts.

**2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
REPORT RECAP**

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
White Plains Office Data Center	Test and evaluate procedures and controls over the White Plains Office Data Center. Review physical security, environmental controls and fire protection.	<ul style="list-style-type: none"> -Controls over the White Plains Office Data Center provide adequate protection for the data center and the servers, routers and switches. -Consider a more efficient and effective way of performing backup procedures by moving the virtual tape library (disk backup) to an off-site location and discontinue the use of physical tape library.
Flynn Outage Management	Evaluate the adequacy and effectiveness of internal controls over Flynn's Outage Management including cost control and quality assurance.	<ul style="list-style-type: none"> -Controls over the planning and monitoring of the 2011 Flynn Outage were adequate and effective. -Changes to the Operating Plant Service Agreement between NYPA and Siemens Westinghouse should be documented in the contract.
Fleet Operations	Review processes and controls associated with the management of NYPA's fleet vehicles. Review fleet acquisitions, disposals, usage controls, and operating and maintenance expenses.	<ul style="list-style-type: none"> -Controls over Fleet Operations are working effectively. -A reconciliation of fleet assets in the Fleet System to the Authority's SAP System should be performed. -Procurement Credit Card statements should be reviewed and approved timely. -Fleet purchasing activities should be monitored.

**2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
REPORT RECAP**

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
NYISO Energy Settlements – Load Serving Transactions	Review processes and controls associated with Energy Scheduling, Energy Settlements, NYISO Rebills and Reconciliation.	<ul style="list-style-type: none"> -Controls over Energy Settlements with the NYISO are adequate and effective. -Controls over the scheduling of energy deliveries to Brookhaven National Lab need improvement.
IT Disaster Recovery Plan	Evaluate the IT Disaster Recovery Plan (ITDRP) to determine if it is adequate to ensure the recovery of critical systems, applications, data and operations in the White Plains Office. Review the training and testing plans, results and the updating of the ITDRP.	<ul style="list-style-type: none"> -The ITDRP provides adequate protection to provide recovery of critical applications and network resources during major disaster events. -The ITDRP should be updated and tested.

2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
AUDITS SCHEDULED SEPTEMBER - DECEMBER

Exhibit C

Financial/Operational Title of Audit	Description	Scheduled Start
ReCharge NY Program Management	Review NYPA's governance documents to ensure program is set up in accordance with the legislation. Review customer files and verify compliance with policies and procedures. Review rate setting process to ensure adequacy and effectiveness of controls.	November
Energy Services Operations	Review implementation of prior audit recommendations. Evaluate operating procedures and controls over vendor selection, vendor management, project management, cost estimation, contingencies, and risk mitigation/ management. Review performance metric for applicability and ensure metrics are accurately monitored and reported.	October
SENY Government Services Program	Review controls and procedures over (1) Project Selection and Facility Audits, (2) Construction Authorization, (3) Procurement of Material and Installation Labor, (4) Accounting for Project Costs, (5) Program Recovery and Overhead Costs, and (6) Project Closeout.	October
Salary Administration	Review NYPA's policies, procedures and controls over Salary Administration. Verify compliance with Salary Administration Policy. Confirm that documentation exists to support approval and justification for promotions and upgrades.	November
ReCharge NY Customer Revenues	Review procedures, processes and controls related to billings of ReCharge NY customers and cash receipts. Ensure that customers are billed accurately based upon meter data received and at the proper rates. Verify compliance with the terms of customer contracts.	November
Public & Governmental Affairs Expenditures	Review procedures, processes and controls over Public & Governmental Affairs Expenditures. Review Budget Monitoring procedures, Contributions and Sponsorships, and Department expenditures. Verify compliance with established policies and procedures.	September
NYISO Installed Capacity	Review procedures, processes and controls associated with the determination of NYPA's Installed Capacity (ICAP) requirements in NYC, Long Island and the rest of New York State. Review NYPA's monthly ICAP certification to the NYISO. Review sales of surplus capacity and purchases for deficient capacity.	October

**2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
AUDITS SCHEDULED SEPTEMBER - DECEMBER**

Financial/Operational Title of Audit	Description	Scheduled Start
Small Clean Power Plants O&M	Review implementation of prior audit recommendations. Evaluate NYPA's vendor management controls in place to oversee contractor performance. Review for compliance with contract terms and conditions.	September
Configuration Management Program	Review NYPA-wide compliance with the Configuration Management Policy. Ensure governance documents clarify program scope, roles and responsibilities. Confirm that controls exist for ensuring compliance when third party engineering firms are a party to configuration changes. Review procedures and processes for Headquarters and sites.	December
NYISO Transmission Settlements	Review processes and controls associated with Transmission revenues and charges billed by the NYISO. Review NYISO Transmission User Charges for congestion and losses. Review NYPA Transmission Adjustment Charge. Review congestion charges billed to Con Edison.	September
Public Authorities Law (PAL) Compliance	Evaluate the overall processes/controls implemented by NYPA to ensure compliance with PAL requirements. Confirm that NYPA is complying with the reporting, governance and administrative requirements of the PAL. Verify compliance with selected NYPA policies and procedures.	September
Assistance to KPMG	Assist KPMG in their annual audit of NYPA's financial statements.	November

**2012 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/12
AUDITS SCHEDULED SEPTEMBER - DECEMBER**

Information Technology Title of Audit	Description	Scheduled Start
SAP Billing System (ReCharge NY)	Review, test and evaluate SAP Billing application controls, documentation and procedures.	November
Energy Management System	Test and evaluate the Energy Management System (EMS) application controls, documentation and procedures. Also, review and test the interfaces with NYISO and NYPA network to determine if EMS is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices.	October
SAP Business Planning Consolidation	Review, test and evaluate SAP Business Planning Consolidation application controls, documentation and procedures.	December