

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON MARCH 29, 2018

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:04 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on March 26, 2018, and electronic notice posted on the Authority's website.

The following Trustees of the Authority were present:

**Shelly L. Cohen, Committee Chair
Elkan Abramowitz, Committee Member
Mark Fischl, Committee Member
Drew Biondo, Trustee**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Joseph Branca, Chief Financial Officer; Jon Mostel, General Counsel; Bobbi O'Connor, Vice President of Policy, Strategy and Administration and Secretary to the Board of Trustees; Ken Kane, Vice President of Financial Oversight; Rick Shansky Vice President of Operations Oversight; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; Kathleen Mitterway, Director of Audit and Jim Miskiewicz, Special Counsel for Ethics, Risk and Compliance.

Representing PSEG LI were David Lyons, Vice President of Business Services; and Markus Ramlall, Director of Finance.

Representing KPMG were John Pontecorvo, Todd Fowler and Mike Percent.

Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the December 19, 2017 Committee meeting.

Upon motion duly made and seconded, the minutes of the December 19, 2017 meeting were approved unanimously.

Chair Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report.

Ms. Mongiardo presented LIPA's financial results, and Mr. Lyons and Mr. Ramlall of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees

Mr. Horowitz presented the Hedge Report and then took questions from the Trustees.

Chair Cohen stated that next item on the agenda is the Presentation of the 2017 Annual Report to be presented by Donna Mongiardo.

Ms. Mongiardo presented the 2017 Annual Report and took questions from the Trustees.

Chair Cohen stated that next item on the agenda is the presentation of the 2017 Audit Results from Independent Auditors to be presented by KPMG representatives Todd Fowler, John Pontecorvo and Mike Percent.

KPMG presented the 2017 Audit Results and took questions from the Trustees.

At approximately 8:33 a.m. Chair Cohen stated that the Committee would adjourn to Executive Session to discuss personnel matters with KPMG. Chair Cohen stated that no votes would be taken and that the Committee would resume its open session.

After noting that no votes were taken in the Executive Session, the public portion of the meeting of the Finance and Audit Committee reconvened at approximately 8:44 a.m.

Chair Cohen stated that next item on the agenda is the Recommendation to Approve the 2017 Annual Report to be presented by Joseph Branca.

Mr. Branca presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee of the Board of Trustees is being requested to: (i) recommend approval of the proposed financial report section of the 2017 annual report of the Long Island Power Authority (the “Authority”), prepared in accordance with Section 2800(1) of the Public Authorities Law (“PAL”), in the form attached hereto as Exhibit “B”; and (ii) recommend approval of a resolution establishing a regulatory asset related to the deferral of litigation reserves, a cash reserve for future litigation settlements that exceed budgeted amounts in any year, and a two-year amortization period for short-term notes issued to fund litigation settlements that exceed cash reserves.

2017 Financial Report

Section 2800(1) of the PAL requires the Authority to submit an annual report to the Governor, the Chairman and ranking minority member of the Senate Finance committee, the Chairman and ranking minority member of the Assembly Ways and Means committee, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of the Authority’s fiscal year.

The annual report includes, among other things, the Authority’s financial report for the fiscal year just ended. Under Section 2800(1)(a)(2) of PAL, the financial report shall include the following: audited financials; grant and subsidy programs; operating and financial risks; current bond ratings; and long-term liabilities (the “Financial Report”).

Section 2800(3) of PAL requires the Financial Report to be approved by the Trustees.

Regulatory Asset Related to Litigation Reserves and Costs

Generally accepted accounting principles require the Authority to create a reserve for potential judgments and litigation claim settlements once it has been determined there is a probability of occurrence and the amounts are estimable, before they are due and payable. As a regulated entity, GASB Statement No. 62, *Codification of accounting and Financial Reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements*, allows the Authority to defer such costs to a future period in alignment with the proposed revenue recovery period. This standard provides the Authority with a mechanism to match our accounting to common utility industry practices.

During 2017, the Authority obtained an actuarially determined estimate for certain future litigation settlements and recorded such amounts as a liability. The Authority will not

recover from customers amounts recorded for these non-cash reserves. Such amounts will remain deferred until settlement costs are paid. The Authority is afforded regulatory accounting treatment under GASB No. 62 for ratemaking purposes and can recognize such non-cash events as a regulatory debit on the statement of net position (more commonly known as the balance sheet) until realized.

To address the realized settlements and judgements, each year the Authority will budget as a component of revenue requirements estimated claim amounts to be paid. As such claims are paid, amounts will be measured against cash reserves.

In years where the actual settlements paid are lower than the amounts budgeted, the Authority will transfer such amounts to the cash reserve to be used to fund future litigation settlements, in an amount not to exceed unpaid estimated potential litigation reserves.

To the extent such judgements or settlements exceed cash reserves in a year, the Authority will issue short-term notes using available working capital programs to fund such cash costs. The staff recommends that the Board establish a two-year amortization to retire such notes and that such amounts be budgeted as a component of debt service in subsequent years to retire such notes.

Recommendation

Based upon the foregoing, it is recommended that the Finance and Audit Committee of the Board of Trustees adopt the resolution in the form attached hereto as Exhibit "A".

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING: (I) THE APPROVAL OF THE 2017 FINANCIAL REPORT OF THE LONG ISLAND POWER AUTHORITY; AND (II) THE ESTABLISHMENT OF A REGULATORY ASSET RELATED TO LITIGATION RESERVES AND COSTS

WHEREAS, Section 2800(1) of the Public Authorities Law ("PAL") requires public authorities such as the Long Island Power Authority (the "Authority") to prepare an annual report; and

WHEREAS, the Authority's annual report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of PAL (the "Financial Report"); and

WHEREAS, the Authority has prepared its Financial Report, which, pursuant to Section 2800(3) of PAL, is subject to the approval of the Trustees; and

WHEREAS, the Authority has also determined to establish a regulatory asset, as described in the attached Memorandum.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the 2017 Financial Report of the Long Island Power Authority, in the form presented at this meeting; and

BE IT FURTHER RESOLVED; that the Finance and Audit Committee of the Board of Trustees hereby recommends the establishment of a regulatory asset related to the deferral of litigation reserves, a cash reserve for future litigation settlements that exceed budgeted amounts in any year, and a two-year amortization period for short-term notes issued to fund litigation settlements that exceed cash reserve.

Chair Cohen stated that next item on the agenda is Internal Audit Activities which would be presented by Kathleen Mitterway.

Ms. Mitterway gave a presentation regarding the Authority's Internal Audit Activities and then took questions from Trustees.

Chair Cohen stated that the next item on the agenda is the review of the Internal Audit Charter and Internal Audit Independence memo to be presented by Kathleen Mitterway.

Ms. Mitterway presented the Internal Audit Independence memo and the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee (the "Committee") is being requested to adopt a resolution recommending revisions to the Long Island Power Authority (the "Authority") Internal Audit Charter (the "Charter") in the form attached hereto.

Background

The Charter, which was most recently adopted by the Committee on March 29, 2017, establishes the purpose, authority and responsibilities of Internal Audit. Consistent with the Charter, the Committee has undertaken a thorough review of the Charter's adequacy and recommends some changes including defining assurance and consulting services in accordance with Standard 1000 of the International Standards for the Professional Practice of Internal Auditing ("Standards"), effective January 2017.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the draft resolution attached hereto.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDATION FOR APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY INTERNAL AUDIT CHARTER

WHEREAS, the Trustees adopted on March 29, 2017, an Internal Audit (“Charter”) which establishes, among other things, the purpose, authority and responsibilities of Internal Audit; and

WHEREAS, the Trustees have reviewed the proposed revised Internal Audit Charter and believes it is reasonable and appropriate to approve it for the reasons set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby adopt the Long Island Power Authority’s “Internal Audit Charter (March 29, 2018)” in the form presented at this meeting; and be it further

RESOLVED, that this resolution take effect immediately.

Chair Cohen stated that the next item on the agenda is the Recommendation to Approve Amendments to the Audit Relationships Policy to be presented by Jim Miskiewicz.

Mr. Miskiewicz presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee of the Board of Trustees of the Long Island Power Authority (the “Authority”) is requested to adopt a resolution recommending approval of a Board Policy on Audit Relationships, as further described below.

Board Policy on Audit Relationships

The Finance & Audit Committee of the Authority’s Board of Trustees, in its charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships.

This proposed Board Policy on Audit Relationships defines the expectations of the Board regarding the existing authority granted to the Finance & Audit Committee for:

- **Selecting an independent certified public accounting firm to conduct annual audits of the Authority.**

- The annual review of the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and confirming the independence of the internal auditors.
- Monitoring, in consultation with the Director of Audit, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings.
- Setting forth the procedures for the Board of Trustee’s receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service.

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as Exhibit A.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING APPROVAL OF LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS

WHEREAS, the Board of Trustees of Long Island Power Authority (the “Authority”) oversees the management of the Authority, the contractual relationship with the Authority’s Service Provider, and fulfillment of the Authority’s mission; and

WHEREAS, as stewards of the Authority, the Trustees are responsible for setting the Authority’s audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee of the Authority’s Board of Trustees, in its charter, was delegated the responsibility of reviewing the Authority’s policies regarding Audit Relationships;

WHEREAS, in the Authority’s By-Laws, the Authority’s Board of Trustees delegated certain responsibilities to the Chief Executive Officer for managing and directing the staff of the Authority; and

WHEREAS, policies addressing audit relationships have been recommended by the Finance & Audit Committee for adoption by the Board, in accordance with this process;

NOW, THEREFORE, BE IT IS RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the Board Policy on Audit Relationships in the form attached to this resolution; and

BE IT FURTHER RESOLVED, that the Board Policy on Audit Relationships be subject to annual review and evaluation by the Finance & Audit Committee in accordance with the accompanying memorandum.

Chair Cohen stated that the next item on the agenda is the Recommendation to Approve the 2017 Investment Report and 2018 Investment Guidelines to be presented by Joseph Branca.

Mr. Branca presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee of the Board of Trustees of the Long Island Power Authority (the “Authority”) is requested to adopt a resolution recommending approval of: (i) the Authority’s Annual Investment Report for 2017 in the form attached hereto as Exhibit “B”; and (ii) the 2018 Investment Policy in the form attached hereto as Exhibit “D”.

Annual Investment Report for 2017

Section 2925 of the Public Authorities Law (“PAL”) requires that the Authority annually review and approve an investment report. The Authority’s investments are managed by an investment manager and the investments are primarily short term, highly liquid investments. All investments of Authority funds are governed by the Authority’s Investment Policy. The Authority’s investments for 2017 performed consistent with Staff’s expectations given the nature of the investments.

2018 Investment Policy

The Board is also required by Section 2925(6) of the PAL to annually review and approve the Investment Policy that details the Authority’s operative instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Authority. The Authority’s Investment Policy was last reviewed and approved on May 24, 2017. The proposed revisions to the Investment Policy seek to clarify, simplify and ensure continued compliance with the various contractual and regulatory requirements. The Investment Policy defines the investment objectives, permitted investments, provide parameters and controls, and enumerate the reporting requirements, while also making the Policy easier to use.

Based on staff’s review, which was performed in consultation with the Authority’s investment advisor, bond counsel and disclosure counsel, the proposed Investment Policy is intended to replace the prior policy and incorporates the following material modifications:

- (i) Increased the maximum holding period of certificates of deposit from 2 to 3 years;
- (ii) Clarified the holding period for maximum maturity to be measured from the transaction’s settlement date;

- (iii) Increased the equity allocation of the Nuclear Decommissioning Trust to a target of 50%; and
- (iv) Permitted fixed income mutual funds in the Nuclear Decommissioning Trust;

Further, Staff has reviewed all other Board financial policies, as applicable, and recommends no change at this time.

Recommendation

Based upon the foregoing, I recommend the approval of the above requested action by adoption of resolution in the form attached hereto as Exhibit “A”.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL INVESTMENT REPORT FOR 2017 AND THE 2018 INVESTMENT POLICY

RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the Annual Investment Report for the period ended December 31, 2017, in the form presented at this meeting; and

BE IT FURTHER RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval the revised Investment Policy in the form presented at this meeting to be effective immediately.

Chair Cohen stated that the last item on the agenda is the Recommendation to Approve Amendments to the Finance and Audit Committee Charter to be presented by Jon Mostel.

Mr. Mostel presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee is being requested to adopt a resolution recommending revisions to the Long Island Power Authority (the “Authority”) Finance and Audit Committee Charter (the “Charter”) in the form attached hereto.

Background

The Charter was most recently revised by the Board of Trustees in January 2017. It establishes the purpose, membership, meeting requirements and responsibilities of the

Finance and Audit Committee (the “Committee”) and serves as the governing document for the Committee. Consistent with the Charter, the Committee has undertaken a thorough review of the Charter’s adequacy and compliance with applicable law, and has noted certain changes that clarify the Committee’s responsibilities with respect to internal audit and enterprise risk management activities, and makes certain changes that provide consistency with the New York State Open Meetings Law and New York State Public Officers Law and those provisions relating to a “quorum” of the Committee.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the draft resolution attached hereto.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDATION FOR THE APPROVAL OF T H E REVISED LONG ISLAND POWER AUTHORITY FINANCE AND AUDIT COMMITTEE CHARTER

WHEREAS, the Trustees adopted, on June 26, 2014, a Finance and Audit Committee Charter (“Charter”) which establishes, among other things, the purpose, powers, composition and key responsibilities of the Finance and Audit Committee (the “Committee”); and

WHEREAS, the Committee has reviewed the proposed revised Charter and believes it is reasonable and appropriate to revise it for the reasons set forth in the accompanying memorandum.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee hereby recommends to the Board of Trustees the adoption of the Long Island Power Authority’s “Finance and Audit Committee Charter (January 24, 2018)” in the form presented at this meeting.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 8:59 a.m.