



The Long Island Power Authority Audit Results

**Consolidated Financial Statements for the year
ended December 31, 2018**

March 20, 2019

Introduction

To the Finance and Audit Committee of the Long Island Power Authority

We are pleased to have the opportunity to meet with you on March 20, 2019 to discuss the results of our audit of the consolidated financial statements of the Long Island Power Authority (the “Authority”) as of and for the year ended December 31, 2018. Our audit was conducted in accordance with the terms established in the audit engagement letter dated October 29, 2018.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our audit plan, presented on September 27, 2018. We will be pleased to elaborate on the matters covered in this document when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

We expect to be in a position to sign our audit opinion on the Long Island Power Authority's consolidated financial statements and our report on internal control and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards on March 20, 2019.

We expect to issue an unqualified Auditor’s Report.

Content

Our audit findings	2
Audit results, required communications, and other matters summary	3
Significant Risks	7
Significant Accounting Practices	9
Newly Effective Accounting Standards	11
Appendix	12



Our audit findings

Audit matters		Risk change	Pages 3-6
Audit risk			
Valuation of Synthetic Fixed Interest Rate Swaps	●	Consistent	Page 7
Management override of controls	●	Consistent	Page 8

Uncorrected audit misstatements		
Understatement/(overstatement)		
	\$m	%
Revenues	-	-
Operating Expenses	-	-
Total assets	-	-
Net Position	-	-

- Outstanding matters**
- Management representation letter
 - Finalize audit report and sign opinion

Accounting judgments related to estimates

Certain estimates made by the Authority are sensitive to the judgments made by management. The judgments made by management in the determination of these estimates has been consistently applied from the prior year to the current year. The engagement team found that the judgments and estimates made by management appeared reasonable. There were no changes from prior year.

Estimates include: Financial Derivative Instrument Valuations, Commodity Derivative Instrument Valuations, Unbilled Revenue, and Pensions and Other Postretirement Obligations

Control deficiencies	
Material weaknesses	0



Audit results, required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the consolidated financial statements of the Long Island Power Authority (the "Authority") as of December 31, 2018, and for each of the years in the two-year period ended December 31, 2018, was performed in accordance with the standards of U.S. generally accepted auditing standards (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.
Changes to our planned risk assessment and planned audit strategy	There were no changes to our audit plan which was presented to you on September 27, 2018.
Auditors' report	We expect to issue an unqualified audit opinion on the consolidated financial statements. Refer to appendix for a draft of our auditors' report and report on internal control and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
Outstanding matters	Outstanding matters as of March 20, 2019 are as follows: <ul style="list-style-type: none"> – Management representation letter – Finalize audit report and sign opinion
Significant accounting policies and practices	Significant accounting policies and practices are discussed within footnote 2 in the Long Island Power Authority's consolidated financial statements. <ul style="list-style-type: none"> – We have reviewed the accounting policies utilized by management in preparation of the consolidated financial statements and found such policies to be appropriate.
Critical Accounting Estimates	Critical accounting estimate related to the valuation of the synthetic fixed interest rate swap (slide 7).

Audit results, required communications and other matters summary (continued)







Communication topic	Response
Significant risks and other significant audit matters	Significant risks and other significant audit matters relate to: <ul style="list-style-type: none"> – Fraud risk related to management override of controls – Valuation of synthetic fixed interest rate swaps
Financial statement presentation	We have no matters to report on the financial statement presentation.
New accounting pronouncements	No new significant accounting pronouncements were adopted by the Authority during the current year. Refer to slide 16 for the recent accounting pronouncements that the Authority is currently evaluating.
Significant Unusual Transactions	There were no significant unusual transactions identified during our audit.
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.
Financial presentation and disclosure omissions	No matters to report.









Audit results, required communications and other matters summary (continued)

Communication topic	Response
Control deficiencies	No matters to report.
Related parties	We performed an evaluation of the Authority's identification of, accounting for, and disclosure of its relationships and transactions with related parties. As a result of such procedures, we have no matters to report.
Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. As a result of our consideration of the other information, no material inconsistencies or material misstatements of facts were identified related to other information.

Audit results, required communications and other matters summary (continued)

Type		Response
Illegal acts or fraud		No Matters to report
Noncompliance with laws and regulations		No Matters to report
Modifications to auditor's report		None
Group audit considerations		N/A
Subsequent events		The Authority's revolving credit facility agreement will expire on March 22, 2019. The Authority's Board has approved the renewal of the agreement with a new authorization limit of \$200 million. The Authority expects to receive the statutorily required approval prior to the expiration of this agreement.
External confirmations (if relevant)		No Matters to report

Type		Response
Significant difficulties encountered during the audit		No matters to report.
Disagreements with management or scope limitations		No matters to report
Management's consultation with other accountants		No matters to report
Significant issues discussed, or subject to correspondence with, management		No matters to report.
Difficult or contentious matters for which the auditors consulted		No matters to report
Material Written Communications between KPMG and Management		Engagement letter & Management representation letter
Other matters (if relevant)		None noted

Significant risks

1 Valuation of synthetic fixed interest rate swaps

Valuation of synthetic fixed interest rate swaps may not have an external source of observable market price quotations; as such, values are based on a mark to model methodology.

Significant Risk of error	Our audit response and findings
<p>The risk</p> <ul style="list-style-type: none"> — The engagement team determined there is no risk of fraud associated with the account. The primary focus is risk mitigation and not for the purposes of financial speculation — The transactions have been determined to be complex due to the nature of the account and the estimates utilized by management — Although there is not a high degree of subjectivity, there is subjectivity in the measurement of the interest rate swap based on assumptions used made by management — The significant transaction is not outside the normal course of business, as the Authority utilizes interest rate swaps to mitigate exposure to interest rate fluctuations <p>Management’s process used to develop the estimates</p> <ul style="list-style-type: none"> — Management uses an expert (Mohanty Gargiulo) to determine the valuation of the interest rate swap by measuring fair value of the swap by primarily utilizing Level 2 inputs (observable inputs) <p>Significant assumptions used that have a high degree of subjectivity</p> <ul style="list-style-type: none"> — No assumptions are considered to have a high degree of subjectivity. Assumptions are obtained through observable market data 	<p>Internal Controls</p> <ul style="list-style-type: none"> — The engagement team performed a walkthrough with management of the control environment with respect to the synthetic interest rate swap and tested the design and implementation of the following key control: <ul style="list-style-type: none"> - CTL-2 – Review of Interest Rate Swap Mark-to-Model Valuation for reasonableness — Tested the operating effectiveness of key internal controls over the valuation of the Authority’s interest rate swap <p>Substantive Procedures</p> <ul style="list-style-type: none"> — Confirmed the value of the interest rate swap to the Third Party Statement obtained directly from the counterparty — Utilized KPMG’s Risk Analytics Valuation (RAV) specialists to perform valuation procedures to determine that the interest rate swap was appropriately valued <ul style="list-style-type: none"> - KPMG RAV performed an independent valuation over the Credit Valuation Adjustment (CVA) in accordance with GASB 72 – Fair Value Measurement and Application <p>Our Findings</p> <ul style="list-style-type: none"> — The engagement team determined that there are no matters to report related to the internal controls over the valuation of the Authority’s interest rate swaps as of December 31, 2018 — The engagement team determined that there are no matters to report related to the estimate of the valuation of the interest rate swap as of December 31, 2018. No indicators of management bias were noted and disconfirming evidence was not identified.

Significant risks

2 Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating effectively.

Significant Risk	Our audit response and findings
<p>The risk</p> <ul style="list-style-type: none"> — Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent consolidated financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override will vary from entity to entity, the risk nevertheless is present in all entities. 	<p>Internal Controls</p> <ul style="list-style-type: none"> — Assessed management’s design and implementation of controls and the operating effectiveness of those controls over manual journal entries and post-closing adjustments including: <ul style="list-style-type: none"> - CTL-1 – All journal entries are adequately supported by financial information and are posted accurately - CTL-2 – All journal entries are approved by a supervisory level employee who does not have access to record transactions and reviews and approves (posts) the transactions to ensure separation of duties - CTL-3 – All journal entries that are posted and unposted are reviewed to ensure completeness of the journal entry population <p>Substantive Procedures</p> <ul style="list-style-type: none"> — Examined journal entries and other adjustments recorded throughout the year which met a predefined scope and ensure the entries were recorded accurately, properly supported and appropriate approval was documented. — Reviewed accounting estimates for bias — Evaluated the business purpose of any significant unusual transactions that may have occurred throughout the year — The engagement team considered the risk of management override of controls related to revenue and noted that the Authority has a very simple revenue process and that revenue recognition is straight forward. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue <p>Our Findings</p> <ul style="list-style-type: none"> — The engagement team determined that there are no matters to report related to the internal controls over management override as of December 31, 2018 — The engagement team did not identify instances of fraud as a result of our substantive procedures

Significant accounting practices

Significant accounting policies and practices	Results of evaluation and conclusions about the qualitative aspects
Revenue recognition	<ul style="list-style-type: none"> — Detailed testing of customer bills and rates throughout the year — Tested the quantity of energy delivered to customers — Tested 100% of the revenue recorded to cash receipts — Tested liquidation of accounts receivable — Unbilled Revenue Substantive Analytical Procedure — Tested inputs to the calculation and the completeness and accuracy of the underlying data in the reports utilized in the unbilled revenue estimate
Long term debt	<ul style="list-style-type: none"> — Confirmed outstanding long-term debt obligations and short term borrowing program with third parties — Recalculated interest expense throughout the year — Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2018
Investments	<ul style="list-style-type: none"> — Tested the fair market value of the complete portfolio of marketable investments utilizing the KPMG National Pricing Desk — Reviewed a sample of investments for compliance with Board approved policies — Confirmed investment balances with the respective banks as of December 31, 2018 — Reviewed the consolidated financial statements for completeness and accuracy of trust assets and obligations

Significant accounting practices (continued)

Significant accounting policies and practices	Results of evaluation and conclusions about the qualitative aspects
Utility plant and property and equipment, including Depreciation and Capital Leases	<ul style="list-style-type: none"> — Tested the additions to Construction Work In Process (CWIP) and the additions to Plant-in-Service (PIS) — Utilized data and analytic procedures to recalculate depreciation expense throughout the year — Ensured proper classification as capital or operating lease — Tested amounts determined to be capitalized — Recalculated lease amortization and verified accuracy of calculation inputs as compared to the related agreements
Regulatory Accounting	<ul style="list-style-type: none"> — Tested changes in regulatory assets and liabilities recorded in revenue and power supply costs — Tested recoverability of existing regulatory assets and liabilities by ensuring all existing regulatory assets and liabilities were contemplated in the Authority's three year rate plan from 2016 – 2018 — Ensured regulatory assets and liabilities recorded were properly authorized and approved in rates by the Board of Trustees
Pensions and other postretirement obligations	<ul style="list-style-type: none"> — Confirmed with actuarial specialists utilized by the PSEG, Towers Watson, and determined the appropriate liability amount — Utilized a KPMG actuarial specialist to validate the appropriateness of the assumptions used and calculations made by Towers Watson to arrive at the OPEB liability as of December 31, 2018

Newly effective accounting standards

Recent Accounting Pronouncements	Effective for years ending December 31		Note
	2019	2020	
<i>GASB Statement No. 84 – Fiduciary Activities</i>	✓		
<i>GASB Statement No. 87 - Leases</i>		✓	
<i>GASB Statement No. 88 – Certain Disclosures Related to Debt, including Director Borrowings and Direct Placements</i>	✓		
<i>GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period</i>		✓	
<i>GASB Statement No. 90 – Majority Equity Interests (an amendment of GASB Statements No. 14 and No. 61)</i>	✓		



Appendix

Independent Auditors' Report

To the Board of Trustees
Long Island Power Authority

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities and fiduciary funds of the Long Island Power Authority (the Authority) and its blended component unit, collectively component units of the State of New York, as of and for the years ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statement

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary funds of the Long Island Power Authority and its blended component as of December 31, 2018 and 2017, and the respective changes in their net position and, where applicable, their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

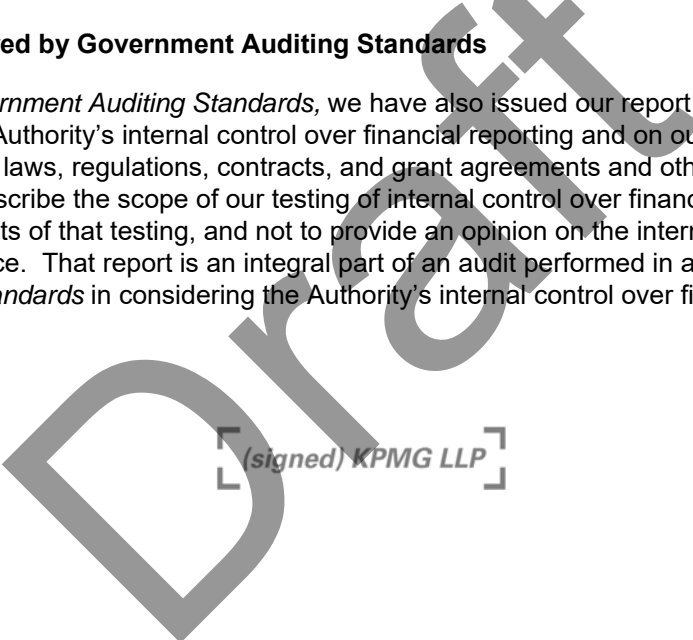
Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management’s Discussion and Analysis on pages 3 through 20 and Required Supplementary Information on pages 95 through 97, be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.



[(signed) KPMG LLP]

New York, New York
March 20, 2019

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Long Island Power Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the business-type activities and fiduciary funds of the Long Island Power Authority (the Authority) and its blended component unit, collectively component units of the State of New York, as of and for the years ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of content, and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended December 31, 2018, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[(signed) KPMG LLP]

New York, New York
March 20, 2019

Draft



Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDPPS 832168

The KPMG name and logo are registered trademarks or trademarks of KPMG International.