



Long Island Power Authority Audit results

**Consolidated financial statements for
the year ended December 31, 2019**

March 27, 2020

Introduction

To the Board of Trustees of the Long Island Power Authority

We are pleased to have the opportunity to meet with you on March 27, 2020 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, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated November 1, 2019.

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 25, 2019. There have been no significant changes to our audit plan and strategy.

Our audit is substantially complete. Subject to the Board of Trustees’ approval, we expect to be in a position to issue our reports in connection with the Authority’s consolidated financial statements on March 27, 2020.

We expect to issue an unmodified auditors’ report.

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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 and for the years ended December 31, 2019 and 2018, was performed in accordance with 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 of the United States.
Other deliverables	Other planned audit deliverables include: <ul style="list-style-type: none"> - Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Accounting Standards -Report on Investment Compliance -Report on the Rate Stabilization Fund agreed upon procedures -Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with Uniform Guidance (formerly OMB Circular A-133)
Outstanding matters	Outstanding matters as of March 27, 2020: <ul style="list-style-type: none"> - Signed management representation letter - Finalize audit and other reports
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Financial presentation and disclosure omissions	No matters to report.
Control deficiencies	No significant deficiencies or material weaknesses were identified.
Auditors' report	We expect to issue an unmodified opinion on the consolidated financial statements of the Long Island Power Authority. No other findings were identified in connection with the other reports to be issued.
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on September 25, 2019.

Audit results required communications and other matters summary (continued)

Communication topic	Response
<p>Significant accounting policies</p>	<p>Significant accounting policies and practices are discussed within note 2 of the Long Island Power Authority's consolidated financial statements.</p> <p>As disclosed in note 2(c): The presentation of restricted cash has been adjusted on the statement of cash flows for the year ended December 31, 2018. Cash and cash equivalents at the beginning of year has been increased by \$324 million and the decrease in restricted cash of \$10.7 million has been eliminated from the net cash used in investing activities subtotal. The adjustment is not considered material to any previously issued consolidated financial statements; however, it has been corrected in 2018 for comparative purposes.</p> <p>In 2019, the Authority concluded that the fiduciary fund statements were immaterial to the consolidated financial statements taken as a whole. The Authority elected to omit fiduciary fund statements and required supplementary information, consistent with AICPA guidance issued in December 2019.</p> <p>We have reviewed the accounting policies utilized by management in preparation of the consolidated financial statements and found such policies to be appropriate.</p>
<p>New accounting pronouncements</p>	<p>The following new accounting pronouncements were adopted by the Authority in 2019.</p> <ul style="list-style-type: none"> - GASB Statement No. 83 – Certain Asset Retirement Obligations - GASB Statement No. 84 – Fiduciary Activities - GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements - GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period <p>The adoption of the new accounting pronouncements did not have a material impact on the Authority's financial statements.</p>
<p>Significant accounting estimates</p>	<p>No matters to report.</p>

Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant financial statement disclosures	No matters to report.
Significant risks and other significant audit matters	<p>Significant risks and other significant audit matters relate to</p> <ul style="list-style-type: none"> - Fraud risk related to management override of controls <ul style="list-style-type: none"> - This risk is present in all entities <p>Refer to slides 8-12 for further detail and our response.</p>
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	<p>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 consolidated financial statements.</p> <p>We are currently not aware of any other documents that contain the audited financial statements of the Authority, including our opinion.</p>

Audit results required communications and other matters summary (continued)

Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Going concern	No matters to report.
Non-GAAP	No significant matters to report.
Subsequent events	No matters to report.
Coordination with PSEG-LI	No significant difficulties encountered.
Other findings or issues	No matters to report.

Communication topic	Response
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Material written communications	Engagement letter, management representation letter

Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the consolidated financial statements.
- Our audit included consideration of internal control over financial reporting 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 internal control.
- We are not expressing an opinion on the effectiveness of internal control.
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

No significant deficiencies or material weaknesses were identified during our audit.

Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
<p>Management override of controls</p>	<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 (during the year and at the end of the reporting period) and post-closing adjustments <p>Substantive procedures</p> <ul style="list-style-type: none"> - Examined journal entries and other adjustments - Reviewed accounting estimates for bias - Evaluated the business purpose for 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 the Authority’s revenue process is routine and not complex. 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, 2019. - The engagement team did not identify instances of fraud as a result of our substantive procedures.

Significant audit areas and our audit response

Significant audit areas	Our audit response and findings
Derivative valuations (estimate)	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Confirmed the value of the Interest Rate Swaps and Commodity Derivatives to the Third Party Statement obtained directly from the counterparty - Utilized KPMG Risk Analytics Valuation (RAV) specialists to perform valuation procedures to determine that the interest rate swaps and commodity derivatives are appropriately valued <p>Our findings</p> <ul style="list-style-type: none"> - The engagement team determined that there are no matters to report related to the estimate of the valuation of the interest rate swaps and commodity derivatives as of December 31, 2019. No indicators of management bias were noted and disconfirming evidence was not identified.
Accounting for regulatory assets and liabilities (estimate)	<p>Substantive procedures</p> <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 <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to the estimate of the accounting for regulatory assets and liabilities as of December 31, 2019. No indicators of management bias were noted and disconfirming evidence was not identified.</p>

Significant audit areas and our audit response (continued)

Significant audit areas	Our audit response and findings
Pension and postretirement obligations (estimate)	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Confirmed with actuarial specialists used by 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, 2019 <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to the estimate of the pension and postretirement obligations as of December 31, 2019. No indicators of management bias were noted and disconfirming evidence was not identified.</p>
Unbilled revenue (estimate)	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Performed an unbilled revenue recalculation - Tested inputs to the calculation and the completeness and accuracy of the underlying data in the reports utilized in the unbilled revenue estimate <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to the estimate of unbilled revenue as of December 31, 2019. No indicators of management bias were noted and disconfirming evidence was not identified.</p>

Significant audit areas and our audit response (continued)

Significant audit areas	Our audit response and findings
Revenue recognition	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Detailed testing of customer bills and rates throughout the year - Tested 100% of the revenue recorded to cash receipts - Tested subsequent cash receipts on accounts receivable <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to revenue recognition as of December 31, 2019.</p>
Long term debt	<p>Substantive procedures</p> <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, 2019 <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to long term debt as of December 31, 2019.</p>

Significant audit areas and our audit response (continued)

Significant audit areas	Our audit response and findings
Investments	<p>Substantive procedures</p> <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 respective banks as of December 31, 2019 - Reviewed the consolidated financial statements for completeness and accuracy of trust assets and obligations <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to investments as of December 31, 2019.</p>
Utility plant and property and equipment, including depreciation	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Tested the additions to Construction Work in Process (CWIP), additions to Plant in Service (PIS), and retirements in PIS - Utilized data and analytic procedures to recalculate depreciation expense throughout the year - Ensured proper classification as capital or operating lease - Tested capitalized amounts to determine appropriateness of capitalization - Recalculated lease amortization and verified accuracy of calculation inputs as compared to the related agreements <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to utility plant and property and equipment, including depreciation as of December 31, 2019.</p>



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.

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