

Long Island Power Authority Discussion with Audit Committee

Audit results for the year ending December 31, 2020

With you today:

Edward Lee: Lead Audit Partner

Ryan Weidner: Audit Managing Director

John Pontecorvo: Lead Audit Sr. Manager

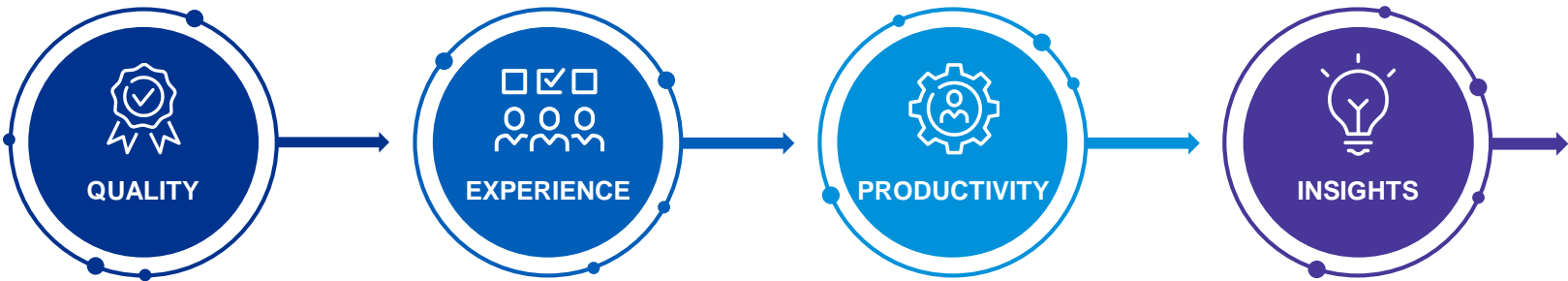
Maureen Evers-Wilcox: Managing Partner – Long Island Office

March 29, 2021



Our commitment to you

We aim to deliver an exceptional client experience by focusing on



Quality in all that we do and how we deliver

We are committed to delivering a thoughtful, transparent and coordinated approach

Risk based auditing by enabling our people through the design, execution, and automation of our processes

Having best-in-class industry and topical insights, which help our auditors make better decisions and share those relevant insights



Scope of Audit & Other Deliverables

Scope of audit	Our audit of the consolidated financial statements of the Long Island Power Authority ("LIPA") as of and for the years ended December 31, 2020 and 2019, 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	<p>Other planned audit deliverables include:</p> <p>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</p> <p>Report on Investment Compliance</p> <p>Report on the Rate Stabilization Fund agreed upon procedures</p> <p>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)</p>



Coordinating audits during COVID-19

Successful remote work execution

Consistent with our previous communications outlined in our planning presentation, there have been no substantial changes to our initial COVID-19 audit plan response.

Business continuity update

- Each KPMG and MWBE employee is equipped with the tools necessary to deliver our audit services remotely
- There have been no significant technology or service delivery interruptions to the LIPA audit as a result of the remote work environment
- Management continues to provide information to support audit procedures electronically, which is consistent with pre-COVID-19 practices
- We have routine virtual check ins and meetings with management throughout the year to discuss key matters
- We conduct frequent virtual meetings with KPMG staff and managers to ensure appropriate supervision and review
- Process walkthroughs were performed virtually

Required Audit Committee Communications

An abstract graphic on a teal background featuring a network of white dots connected by thin white lines. Three larger, more prominent circular nodes are visible, acting as hubs for the network. The overall aesthetic is modern and technological.



Summary: Audit results required communications and other matters

Audit results		Response
	Outstanding matters	Outstanding matters as of March 29, 2021: — Signed Management Representation Letter — Finalized Audit and other reports
	Significant unusual transactions	No matters to report
	Uncorrected audit misstatements	No matters to report
	Corrected audit misstatements	No matters to report
	Financial presentation and disclosure omissions	No matters to report
	Non-GAAP policies and practices	No significant matters to report
	Material weaknesses and significant deficiencies in internal control	No significant deficiencies or material weaknesses were identified.
	Auditors' report	We expect to issue an unmodified opinion on the consolidated financial statements of the LIPA, with an emphasis of a matter paragraph regarding the adoption of GASB 87, Leases. No other findings or matters were identified in connection with other reports to be issued.
	Changes to our 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 23, 2020.
	Significant accounting policies and practices	Significant accounting policies and practices are discussed within note 2 of the LIPA's consolidated financial statements. We have reviewed the accounting policies utilized by management in preparation of the consolidated financial statements and found such policies to be appropriate.
	Significant accounting estimates	Valuation of commodity derivatives and financial derivatives, PSEG Pension and postretirement obligations, Leases (in connection with GASB 87)
	Significant financial statement disclosures	No matters to report
	Related Parties	We performed an evaluation of the LIPA'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
	Going concern	No matters to report



Summary: Audit results required communications and other matters (continued)

Audit results	Response	
	Other information	<p>Our responsibility with respect to information in a document that contains the audited consolidated financial statements 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 LIPA, including our opinion.</p>
	Subsequent events	No matters to report
	In-house legal	No matters to report
	Illegal acts or fraud	No matters to report
	Noncompliance with laws and regulations	No matters to report
	Significant difficulties encountered during the audit	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
	Difficult or contentious matters for which the auditor consulted	No matters to report
	Disagreements with management	No matters to report
	Other significant matters	<p>Significant risks and other significant audit matters relate to:</p> <p>Fraud risk related to management override of controls</p> <p>This risk is present in all entities</p> <p>Refer to slides 8-13 for further detail and our response.</p>
	Written communications	Engagement letter and management representation letter
	Independence	See slide 14
	Inquiries	See slide 15



Significant risks and other significant audit matters

Significant Risks	Procedures performed	Results
Management override of controls	<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 journal entries (during the year and at the end of the reporting period), as well as 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 noted that the LIPA 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, 2020. The engagement team did not identify instances of fraud as a result of our substantive procedures.



Significant audit areas and our audit response

Significant Risks	Procedures performed
Valuation of Commodity Derivatives and Financial Derivatives (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> <p>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, 2020. No indicators of management bias were noted and disconfirming evidence was not identified.</p>
PSEG 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, 2020 <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, 2020. No indicators of management bias were noted and disconfirming evidence was not identified.</p>



Significant audit areas and our audit response

Significant Risks	Procedures performed
<p>Leases (in connection with the adoption of GASB 87) (<i>estimate</i>)</p>	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Performed procedures to test the completeness of the population - Inspected a sample of contracts that were determined to contain leases by management and management's consultant to determine that contracts were subject to implementation of GASB 87 - Inspected a sample of contracts that were determined to not contain leases by management and management's consultant to determine that contracts were not subject to GASB 87 - Reviewed management's GASB 87 Findings and Summary Report which was prepared by Utility Consulting Partners. - Obtained an understanding of management's basis for selecting the discount rate and policy for selecting discount rates for any new leases - Compared the discount rate used by management to various benchmarks. - Performed a sensitivity analysis over the discount rate used in the calculation of the ROU asset and liability. <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to the estimate of leases as of December 31, 2020. No indicators of management bias were noted and disconfirming evidence was not identified.</p>



Significant audit areas and our audit response

Significant Risks	Procedures performed
Revenue recognition	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Detailed testing of customer bills and rates throughout the year - Compared revenue recorded to cash receipts (cash proof) - Tested subsequent cash receipts on accounts receivable <p>Our findings The engagement team determined that there are no matters to report related to revenue recognition as of December 31, 2020.</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 LIPA was compliant as of December 31, 2020 <p>Our findings The engagement team determined that there are no matters to report related to long term debt as of December 31, 2020.</p>
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, 2020 - Reviewed the consolidated financial statements for completeness and accuracy of trust assets and obligations <p>Our findings The engagement team determined that there are no matters to report related to investments as of December 31, 2020.</p>



Significant audit areas and our audit response

Significant Risks	Procedures performed
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 - Tested capitalized amounts to determine appropriateness of capitalization - Tested the allocation of the overhead cost assessments and verified that the allocation was appropriately applied to each project. <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to utility plant and property an equipment, including depreciation</p>
Unbilled revenue	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Performed a substantive analytic over unbilled revenue - Tested inputs to the analytic 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 unbilled revenue as of December 31, 2020.</p>



Significant audit areas and our audit response

Significant Risks	Procedures performed
Accounting for regulatory assets and liabilities	<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- 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 regulatory assets and liabilities as of December 31, 2020.</p>



Independence required communications

Our professional standards and other regulatory requirements specify that we to communicate to you in writing, at least annually, all relationships between our firm, or any affiliates of the firm, and LIPA and persons in a financial reporting oversight role at LIPA, which may reasonably be thought to bear on independence. In addition to the professional services disclosed in the previous slide, we are not aware of any relationships between our firm and LIPA and persons in a financial reporting oversight role at LIPA.



Inquiries

The following inquiries are in accordance with AU-C 260

Is the audit committee aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the audit committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting LIPA?

Appendix

- Audit Quality and Transparency
- KPMG thought leadership



Audit quality and transparency

2020 Audit quality report

- Highlights the steps we have taken in 2020 to evolve and enhance our audit practice and our firm
- Provides an overview of how we are strengthening our culture, continuing to invest in our people, and the new technologies that will enable our workforce



2020 Transparency report

- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards



Reports and supplements available at:
read.kpmg.us/auditquality



KPMG thought leadership resources

KPMG Institute Network <https://portal.us.kworld.kpmg.com/scripts/index.aspx/md/institutes/pages/home>

KPMG's Institute Network brings together thought leadership, insights, and knowledge about the issues and topics that matter most to our clients. So whether it's insight into industry trends or the interpretation of new regulatory requirements, the KPMG Institute Network is the place you can turn. It's also a destination that offers an open forum where clients can exchange information and share leading practices with their industry peers through audio and video Webcasts, share forums, roundtables, conferences, surveys, and more.

The KPMG Institutes include: Advisory Institute, Audit Committee Institute, Financial Reporting View, Global Energy Institute, Private Enterprise Institute, Government Institute, Healthcare and Life Sciences Institute, IFRS Institute, Shared Services and Outsourcing Institute, Tax, US Manufacturing.

Board Leadership Center <https://boardleadership.kpmg.us/>

Engaging with directors and business leaders. Articulating boardroom challenges. Delivering practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting, and more—all through a board lens.

Audit Committee Institute <https://boardleadership.kpmg.us/audit-committee.html>

As part of the KPMG Board Leadership Center, the Audit Committee Institute (ACI) provides audit committee and board members with practical insights, resources, and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today—from risk management and emerging technologies to strategy, talent, and global compliance.

Government Institute <https://institutes.kpmg.us/government.html>

The Government Institute has been established to help federal, state, and local governments, and higher education and not-for-profit organizations meet their mandates to achieve unprecedented standards of transparency and accountability.

COVID-19: Reaction, Resilience, Recovery, New Reality <https://www.kpmg.us/insights/2020/covid-19-resilience-readiness.html>

KPMG has created a COVID-19 landing page to share the latest insight into the unprecedented challenges of the rapidly changing landscape to establish clarity, emerge with strength, and inspire the future of business. This website includes links to our latest COVID-19 thought leadership and webcasts, and includes industry sector specific content, such as Asset Management, Consumer & Retail, Energy, and Insurance to name a few.

Questions?

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

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