



Long Island Power Authority Discussion with the Finance and Audit Committee

Audit results for the year ended 12/31/2022

With you today:

Edward Lee: Lead Audit Partner

Maureen Evers-Willox: Client Relationship Partner

Stephen Scelfo: Lead Audit Manager

Fernando Mabbayad: Audit Manager

March 29, 2023



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Delivering a better audit experience drives us

With KPMG, you can expect an experience that's better for your team, your organization, and the capital markets. An experience that's built for a world that demands agility and integrity.

We aim to deliver an exceptional client experience for the Long Island Power Authority (herein referred to as LIPA) by focusing on:



Quality



Experience



Productivity



Insights

KPMG Clara Technology

Bringing the audit to one place



Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



Secure

A secure client portal provides centralized, efficient coordination with your audit team.



Intelligent workflow

An intelligent workflow guides audit teams through the audit using documented risk areas by ASC topic.



Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Scope of Audit and Other Deliverables

Scope of the audit	Our audit of the basic financial statements of the Long Island Power Authority (LIPA) as of and for the years ended December 31, 2022 and 2021, was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller of the United States.
Other deliverables	<p>Other planned audit deliverables include:</p> <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 <i>Government Accounting Standards</i>• Report on Investment Compliance• Report on Debt 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) – To be performed in Summer 2023



Required communications to the Finance and Audit Committee



Required communications and other matters

Matters to communicate	Response
Outstanding Matters	Outstanding matters as of March 29, 2023: <ul style="list-style-type: none"> - Signed Management Representation Letter - In-House Legal Letter
Significant or unusual transactions	As disclosed in Note 4, in September 2022, Utility Debt Securitization Authority ("UDSA") issued the Series 2022 Bonds in connection with Financing Order No.6. No other significant or unusual transactions identified.
Audit misstatements	No corrected or uncorrected misstatements identified
Financial statement presentation and disclosure omissions	No material matters to report
Non-GAAP policies and practices	No matters to communicate
Auditors' report	We plan to issue an unmodified opinion on the basic financial statements of LIPA
Changes to our risk assessment and planned audit strategy	No matters to report
Significant accounting policies and practices	Significant accounting policies and practices are discussed within Note 2 of LIPA's financial statements. We have reviewed the accounting policies utilized by management in preparation of the financial statements and found such policies to be appropriate.
Significant risks	Fraud risk related to management override of controls. Refer to slide 10 for further details and our response.
Significant audit areas and estimates	Refer to slides 11 through 15
Significant financial statement disclosures	No matters to report
Group audit engagement considerations	We have completed our audit of the UDSA basic financial statements and have presented the results of our audit to the UDSA Board of Trustees on March 28, 2023.

Required communications and other matters

Matters to communicate	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 opinions.</p>
Related parties	We performed an evaluation of 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.
Subsequent events	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.

Required communications and other matters

Matters to communicate	
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Written communications	Engagement letter, management representation letters [Financial Statement Audit, Agreed-upon Procedures, and Investment Compliance]
Independence	See slide 16
Inquiries	See slide 17

Required communications and other matters

Attestation Reports	Response
Agreed-upon procedures relating to Servicing Agreements	No matters to report.
Agreed-upon procedures relating to LIPA's Rate Covenant Calculation	No matters to report.
Debt Compliance Report in relation to LIPA's Reimbursement Agreements	No matters to report.
Investment compliance report in connection with the specified requirements of Section 201.3 of <i>Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York</i> and in the Authority's Investment Guidelines	No matters to report.

Significant risks

Significant risks	Procedures performed
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"> — Performed roll-forward procedures to test completeness of the journal entry population and tested a selection of journal entries to test relevant data elements for accuracy — Used eData routines to select journal entries for testing based on specific criteria. — Reviewed accounting estimates for bias — 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

Significant audit areas and estimates

Accounting Estimates	Procedures performed
Valuation of Financial and Commodity Derivatives	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Confirmed the value of the Financial 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 Financial and Commodity derivatives are appropriately valued - Tested a sample of settled and unsettled commodity derivative transactions for completeness and accuracy <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, 2022. No indicators of management bias were noted and disconfirming evidence was not identified.</p>
Marketable Securities	<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, 2022 - Reviewed the 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 the estimate of marketable securities as of December 31, 2022. No indicators of management bias were noted and disconfirming evidence was not identified.</p>

Significant audit areas and estimates

Significant audit areas	Procedures performed
Leases	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Obtained and tested management's lease schedule for mathematical accuracy - Agreed beginning balance to prior year audited workpapers - Recalculated amortization expense and agreed ending balance to the general ledger <p>Our findings The engagement team determined that there are no matters to report related to leases as of December 31, 2022</p>
PSEG-LI Pension and postretirement obligations	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Confirmed with actuarial specialists used by PSEG-LI (Willis Towers Watson) and agreed the obligation amount and assumptions used to the financial statements - Inspected Cheiron's and management's reports to ensure that actuarial assumptions used were appropriate <p>Our findings The engagement team determined that there are no matters to report related to PSEG-LI pension and postretirement obligations as of December 31, 2022.</p>

Significant audit areas and estimates

Significant audit areas	Procedures performed
Revenue recognition and accounts receivable	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Tested detail of customer bills and rates throughout the year - Tested detail of customer accounts receivable balance as of December 31, 2022 and subsequent payments made after year end - Compared revenue recorded to cash receipts (cash proof) <p>Our findings The engagement team determined that there are no matters to report related to revenue recognition as of December 31, 2022.</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 The engagement team determined that there are no matters to report related to unbilled revenue as of December 31, 2022.</p>

Significant audit areas and estimates

Significant audit areas	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) and additions to Plant in Service (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 The engagement team determined that there are no matters to report related to utility plant and property and equipment, including depreciation</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 certain financial related debt covenants and noted that LIPA was compliant as of December 31, 2022 - Tested the securitization in connection with Financing Order No. 6 <p>Our findings The engagement team determined that there are no matters to report related to long term debt as of December 31, 2022.</p>

Significant audit areas and estimates

Significant audit areas	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 <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, 2022.</p>

Independence

Independence

Our professional standards and other regulatory requirements specify that we are required 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 slides, we are not aware of any relationships between our firm and LIPA and persons in a financial reporting oversight role at LIPA. In connection with our audit of LIPA, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.

We also bring to your attention that LIPA does pay for an annual subscription to KPMG's Accounting Research Online (ARO) tool. KPMG's ARO tool provides easy access to a full range of authoritative accounting and financial reporting literature. The cost of the subscription is approximately \$2,230 per year and is permissible under professional standards. We also perform word processing services in connection with the preparation of the Data Collection Form for the Single Audit.

Inquiries

Is the Finance and 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 basic 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 basic financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the Finance and Audit Committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting LIPA?
 - If so, have the instances been appropriately addressed and how have they been addressed?



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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Appendix



U.S. Transparency report



U.S. 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

U.S. Impact plan

- U.S. Impact Plan spotlights
 - Audit quality
 - Accelerate 2025
 - Reducing our carbon footprint
 - Community impact

In addition to this report, we are providing you with our Transparency Report Supplement:
Assisting audit committees in meeting NYSE rules on auditor communications

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

Our values

We do what's right.	We never stop learning and improving.	We think and act boldly.	We respect each other and draw strength from our differences.	We do what matters.
<h2>Integrity</h2> <ul style="list-style-type: none"> — Has a moral compass that does not waver in any situation, big or small — Does what they say and takes accountability when they don't — Is honest and forthright, even when it's difficult — Is not a bystander; takes action in the moment to do what's right and speak up — Upholds the letter and spirit of our ethical and professional standards, even under pressure 	<h2>Excellence</h2> <ul style="list-style-type: none"> — Demonstrates a passion for quality — Pushes individuals and teams to reflect and evolve, learning from both success and failure — Shares knowledge patiently and generously — Advocates for and role models life-long personal, technical and professional growth — Invites feedback and constructive challenge, and promptly acts on it 	<h2>Courage</h2> <ul style="list-style-type: none"> — Thinks big, pursuing innovative ideas and solutions — Openly questions actions inconsistent with our values, even when it isn't popular — Engages in candid conversations, caring personally and challenging directly — Has a bias for action and makes tough decisions — Acknowledges mistakes and limitations; asks for help 	<h2>Together</h2> <ul style="list-style-type: none"> — Treats everyone with respect and dignity, always — Fosters an environment of inclusion, safety and belonging — Builds and nurtures meaningful relationships with people of all backgrounds — Embraces our 'One Firm' approach, involving those with different backgrounds, experiences, and capabilities — Actively listens and acts with empathy to drive better outcomes 	<h2>For Better</h2> <ul style="list-style-type: none"> — Puts the work we do every day into context — Generously helps out and cares for others — Acts today to strengthen the firm for the future — Does small things everyday that make a difference — Looks beyond themselves to make a broader impact – from the individual, to local communities, to the world at large



Thank you!

