



Long Island Power Authority Discussion with the Finance and Audit Committee

Audit results and strategy for the year ending December 31, 2024

With you today:

- Kevin Lyons, Lead Audit Engagement Partner
- Todd Fowler, Client Relationship Partner, Audit Sector Leader Energy and Renewables
- Stephen Scelfo, Lead Audit Engagement Senior Manager

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Audit results required communications and other matters

Matters to communicate		Response
Significant unusual transactions	X	
Uncorrected audit misstatements	X	
Corrected audit misstatements	X	
Financial statement presentation and disclosure omissions	X	
Non-GAAP policies and practices	X	
Auditors' report	✓	Page 4
Changes to our risk assessment and planned audit strategy	X	
Significant accounting policies and practices	✓	Page 4
Significant risk	✓	Page 6
Significant audit areas and accounting estimates	✓	Page 7 to 10
Group audit engagement considerations	✓	Page 4

Matters to communicate		Response
Related parties	✓	Page 4
Going concern	X	
Other information	✓	Page 4
Subsequent events	X	
Noncompliance with laws and regulations	X	
Significant difficulties encountered during the audit	X	
Significant findings or issues discussed, or the subject of correspondence with management	X	
Management's consultation with other accountants	X	
Disagreements with management	X	
Other significant matters	X	
Required inquiries	X	Page 12

✓ = Matters to report X = No matters to report

Audit results required communications and other matters

Matters to communicate

Auditors' report	We expect to issue an unmodified opinion on the basic financial statements. Our report will also contain reference to other required supplementary information accompanying the basic financial statements. While such information is required be presented to supplement the basic financial statements, our responsibilities for such information is limited to inquiries of management about the methods of preparing such information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on such information because the limited procedures do not provide us with sufficient evidence to express an opinion to provide any assurance.
Significant accounting policies and practices	Significant accounting policies and practices are summarized within Note 2 of Long Island Power Authority's (LIPA) financial statements. We have reviewed the accounting policies utilized by management in preparation of the basic financial statements and found such policies to be appropriate.
Group audit engagement considerations	We have completed our audit of the Utility Debt Security Authority (UDSA) basic financial statements and have presented the results of our audit to the UDSA Board of Trustees on March 24, 2025.
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 report.
Other information	We are currently not aware of any other documents that contain the audited financial statements of LIPA, including our opinions.

Audit results required communications and other matters

Matters to communicate	
Consultations	There were no difficult or contentious matters for which the auditor consulted outside the engagement team that are relevant to the audit committee's oversight of the financial reporting process
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in system of 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 letter, and required communications letter to be provided under separate cover.
Independence	<p>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 the LIPA, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.</p> <p>We also bring to your attention that perform word processing services in connection with the preparation of the Data Collection Form and Single Audit Report for the Single Audit, but such services do not impact our independence.</p>
Other reports	<p>We have no other matters to report related to our performance of the following reports:</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 Covenant and amounts held in 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 completed in Summer 2025

Significant risk

Significant risks	Procedures performed
<p>Risk of fraud due to management override of controls</p> <p>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 otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.</p>	<p>Internal controls</p> <ul style="list-style-type: none">— Assessed management’s design and implementation of controls over journal entries (throughout the year and at period end), as well as post-closing adjustments <p>Substantive procedures</p> <ul style="list-style-type: none">— Involved KPMG Forensics in our risk assessment throughout the audit to assist in our consideration of fraud risk factors and procedures that the engagement team performed.— 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 recognition.

Significant audit areas and accounting estimates

Description of significant accounting estimates

Management follows the provisions of GASB Statement No. 72, Fair Value Measurements. LIPA's investments are comprised of marketable securities. Marketable securities with readily determinable fair values are reported at fair value based upon quoted or published market prices with gain and losses included in the Statement of Revenues, Expenses and Changes in Net Position.

Audit findings

Significant assumptions used that have a high degree of subjectivity

- No significant assumptions used in the valuation of investments that would have a high degree of subjectivity

Indicators of possible management bias

- None identified

Qualitative aspects

- LIPA reviews and evaluates the values provided directly by the investment managers in the determination of the estimate of the valuation of the marketable securities.

Conclusions

The engagement team determined that there are no matters to report related to the estimate of marketable securities as of December 31, 2024. No indicators of management bias were noted and no disconfirming evidence was identified.

Significant audit areas and accounting estimates (cont.)

Significant audit areas	Procedures performed
<p>Revenue recognition and related accounts receivable</p> <p>Operating revenues are comprised of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at year- end. LIPA accrues unbilled revenues by estimating unbilled consumption at the customer meter.</p>	<p>Audit response:</p> <ul style="list-style-type: none">- Performed risk assessment procedures to determine the likelihood of a risk of material misstatement related to unbilled revenues and volumes sold to customers;- Utilized data and analytic tools to substantively test the population of customer bills;- Recalculated a sample of customer bills and vouched to cash and invoice support;- Compared total revenues recognized o cash receipts (cash proof); and- For a sample of outstanding accounts receivable balances, confirmed the amounts recorded directly with the customer and performed alternative procedures for those confirms not received. <p>Audit findings:</p> <ul style="list-style-type: none">- No significant findings per the results of the above procedures.

Significant audit areas and accounting estimates (cont.)

Significant audit areas	Procedures performed
<p>Utility plant and property and equipment including depreciation expense</p> <p>Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, and indirect costs associated with an addition or replacement. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, are charged to accumulated depreciation. The cost of repairs and minor renewals are charged to operations and maintenance expense. Group properties, such as poles, meters, and wire, are accounted for on an average unit cost basis by year of installation. The provisions for depreciation for utility plant result from the application of straight-line rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. Property and equipment are being depreciated over its estimated useful life using the straight-line method.</p>	<p>Audit response:</p> <ul style="list-style-type: none"> - Performed risk assessment procedures to determine the likelihood of a risk of a material misstatement related to capitalized labor and overhead costs, fixed asset retirements, and aged construction work in progress; - Performed substantive testing over current year additions to construction work in progress and plant in services; and - Recalculated depreciation expense recognized for the current year. <p>Audit findings:</p> <ul style="list-style-type: none"> - No significant findings per the results of the above procedures.
<p>Commodity and financial derivative instruments</p> <p>LIPA uses derivative instruments in its normal course of business to limit some of the volatility associated with interest rate changes and market price fluctuations in the purchase of fuel oil, natural gas, and electricity. LIPA does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB Statement No. 53 to determine whether they meet the definition of derivative instruments and whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of LIPA's derivatives are reported on the Statements of Net Position as either Commodity Derivative Instruments or Financial Derivative Instruments.</p>	<p>Audit response:</p> <ul style="list-style-type: none"> - Performed risk assessment procedures to determine the likelihood of a risk of a material misstatement related to the valuation of commodity and financial derivatives; - Confirmed all commodity and financial derivative relationships with the counterparty; and - Performed substantive testing over the population of settled and unsettled commodity transactions provided by PSEG ER&T for completeness and accuracy <p>Audit findings:</p> <ul style="list-style-type: none"> - No significant findings per the results of the above procedures.

Significant audit areas and accounting estimates (cont.)

Significant audit areas	Procedures performed
<p>Accounting for regulatory assets and liabilities</p> <p>LIPA's financial statements report certain transactions in accordance with GASB Codification Section RE10, Regulated Operations which requires that the effects of the rate-making process be recorded in the financial statements. LIPA's Board has approved various regulatory mechanisms that result in timing differences between the recognition of revenues and expenses for rate-making purposes and treatment under U.S. generally accepted accounting principles for non-regulated entities</p>	<p>Audit response:</p> <ul style="list-style-type: none">- Performed risk assessment procedures to determine the likelihood of a risk of a material misstatement related to the amortization of or adjustments related to existing regulatory assets and liabilities; and- Reviewed the minutes and held inquiries with management to ensure completeness of regulatory assets and liabilities. <p>Audit findings:</p> <ul style="list-style-type: none">- No significant findings per the results of the above procedures.
<p>Grant Income</p> <p>LIPA received a mitigation grant to fund storm-hardening assets. Under GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, LIPA was permitted to record the funds as income; however, LIPA's Board authorized the deferral of grant income as a regulatory credit and report the revenue over the same period as the depreciation expense on the grant funded storm hardened capital assets.</p>	<p>Audit response:</p> <ul style="list-style-type: none">- Performed risk assessment procedures to determine the likelihood of a risk of a material misstatement related to grant income recognized during fiscal year 2024 <p>Audit findings:</p> <ul style="list-style-type: none">- No significant findings per the results of the above procedures.

US Audit Quality, Transparency and Impact reports



- Interactive dashboard highlights key quality metrics
- Details KPMG's investment in our audit approach, people, technology, quality management system and the future of audit

Audit Quality Report



- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's System of Quality Control
- Discusses how the firm aligns with the requirements and intent of applicable professional standards including our System of Quality Control Statement of Effectiveness

Transparency Report



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- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

KPMG Impact Plan

Reports and supplements available at: <https://kpmg.com/us/en/articles/audit-quality-report.html>

For the fiscal year 2024, a separate NYSE supplement is not provided as the relevant information has been incorporated into the main document.

Required inquiries

- What are your views about fraud risks, including management override of controls, at LIPA and whether you have taken any actions to respond to these risks?
- Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
If so, have the instances been appropriately addressed and how have they been addressed?
- Are you aware of or have you received tips or complaints regarding LIPA's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?
- How do you exercise oversight over management's assessment of fraud risk and the establishment of controls to address/mitigate fraud risks?
- Has LIPA entered into any significant unusual transactions?
- Have there been any instances of actual or possible violations of laws and regulations, including illegal acts (irrespective of materiality threshold)?
- Has LIPA complied with all covenants during the financial statement period and before the date of the auditor's report?
Have there been any events of default during the financial statement period and before the dates of the auditor's report?
- What is the audit committee's understanding of LIPA's relationships and transactions with related parties that are significant to LIPA?
- Do any of the Trustees have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?
- Have any subsequent events occurred that might affect the financial statements?



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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