I. Adoption of Minutes for March 30th meeting

II. Discussion of Q1 Financial Results (Little/Mongiardo)

III. Discussion of Upcoming Financing (Falcone/Kane)

IV. Discussion of USDA Policies and Procedures (Little/Mongiardo/Kane)

V. Consideration of Approval of USDA Internal Audit Charter (Mitterway)

VI. Discussion of Internal Audit Plan (Mitterway)
I. Minutes of March 30, 2015
The Finance Committee (the “Committee”) of the Utility Debt Securitization Authority (the “Authority”) was convened at 10:03 a.m. at Hawkins Delafield, One Chase Manhattan Plaza, New York, NY, pursuant to legal notice given on March 25, 2015; and electronic notice posted on the Long Island Power Authority’s (“LIPA”) website.

The following Trustees of the Authority were present:

Bruce Levy, Committee Chair
Paul Francis
Robert Gurman

Representing the Authority were John McMahon, Chief Executive Officer; Tom Falcone, Chief Financial Officer; and Jon Mostel, Secretary. Representing the Long Island Power Authority were Bobbi O’Connor, Deputy General Counsel; Kenneth Kane, Managing Director of Finance and Budgeting; and Donna Mongiardo, Controller.

Also in attendance were Todd Fowler and Jessica DiGiamo Diaz of KMPG, Bruce Van Dusen of Hawkins Delafield & Wood, and Elizabeth Columbo of Nixon Peabody.

The Chair welcomed everyone to the Finance and Audit Committee meeting of the Authority.

The Chair stated that the first item on the agenda is the adoption of minutes from the March 24, 2014 meeting. He asked if there were any changes or deletions. Upon hearing
none, the resolution was then adopted by the Trustees.

Upon motion duly made and seconded, the following motion was approved:


RESOLVED, that the Minutes of the meetings of the Authority held on March 24, 2014 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

***

The Chair stated that the next item on the agenda is a discussion with the Authority’s independent auditors KPMG. The presentation was made by Mr. Fowler, who discussed KPMG’s audit of the Authority’s financial statements, report on internal controls, and compliance with investment guidelines. After the presentation, Mr. Fowler, Mr. Falcone, and Mr. Mostel took questions from the trustees.

The Chair called for a motion to enter into Executive Session for a discussion with the independent auditors, which was seconded.

Upon motion duly made and seconded, the following resolution was approved:

EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Utility Debt Securitization Authority shall convene in Executive Session for the purpose of discussing personnel matters with our independent auditors.

At approximately 10:24 a.m. the Board of Trustees adjourned into Executive Session, which ended at 10:49 a.m. After noting that no votes were taken in the Executive Session, the public meeting of the Utility Debt Securitization Authority reconvened.

***

The Chair stated that the next item on the agenda is consideration of a resolution
recommending approval of the 2015 Budget.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Mr. Falcone. After a presentation by Mr. Falcone and a discussion by the Trustees, the following resolution was unanimously adopted by the Trustees:

RECOMMENDATION OF APPROVAL OF THE UTILITY DEBT SECURITIZATION AUTHORITY’S 2015 BUDGET

RESOLVED, that the proposed 2015 budget of the Utility Debt Securitization Authority (“Authority”), in the form presented at the meeting, is hereby recommended by the Finance and Audit Committee of the Board for approval by the Board.

***

The Chair stated that the next item on the agenda is consideration of a resolution recommending approval of the 2014 Financial Report.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Mr. Falcone. After a presentation by Mr. Falcone and a discussion by the Trustees, the following resolution was unanimously adopted by the Trustees:

RECOMMENDATION OF APPROVAL OF 2014 FINANCIAL REPORT OF THE UTILITY DEBT SECURITIZATION AUTHORITY

WHEREAS, Section 2800(1) of the Public Authorities Law (“PAL”) requires public authorities such as the Utility Debt Securitization Authority (the “Authority”) to prepare an annual report; and

WHEREAS, the Authority’s annual report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of PAL (the “Financial Report”); and

WHEREAS, the Authority has prepared its Financial Report, which, pursuant to Section 2800(3) of PAL, is subject to the approval of the Trustees; and

WHEREAS, the Finance and Audit Committee has thoroughly reviewed the Authority’s Financial Report:

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Authority’s Board of Trustees hereby recommends that the Board of Trustees approve
the 2014 Financial Report of the Utility Debt Securitization Authority, in the form presented at this meeting.

***

The Chair stated that the next item on the agenda is consideration of a resolution recommending approval of modifications to the Investment Guidelines and consideration of a resolution recommending approval of the 2014 Annual Investment Report.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matters would be presented by Mr. Falcone. After a presentation by Mr. Falcone and a discussion by the Trustees, the following resolution was unanimously adopted by the Trustees:

RECOMMENDATION OF APPROVAL OF (1) MODIFICATIONS TO INVESTMENT GUIDELINES AND (2) THE 2014 ANNUAL INVESTMENT REPORT PURSUANT TO THE AUTHORITY’S INVESTMENT GUIDELINES

WHEREAS, the Utility Debt Securitization Authority (the “Authority”) is required by Section 2925(6) of the Public Authorities Law, as amended, to periodically review, amend and adopt investment guidelines which detail the Authority’s operative policy and instructions regarding the investing, monitoring and reporting of funds of the Authority; and

WHEREAS, the Authority adopted the Utility Debt Securitization Authority Guidelines for Investing, Securing, Monitoring and Reporting Authority Funds Available for Investment (the “Investment Guidelines”), in November 2013; and

WHEREAS, staff of the Long Island Power Authority (“LIPA”) has proposed certain amendments to the Investment Guidelines as specifically detailed in the accompanying memorandum; and

WHEREAS, the Finance and Audit Committee of the Authority’s Board of Trustees has reviewed LIPA staff’s proposed modifications to the Investment Guidelines; and

WHEREAS, the Investment Guidelines require that the Board annually approve an investment report to be prepared by LIPA staff; and

WHEREAS, the Finance and Audit Committee of the Authority’s Board of Trustees has reviewed the annual investment report for 2014 (the “2014 Investment Report”) with the appropriate members of LIPA staff:

NOW THEREFORE BE IT RESOLVED, that the Finance and Audit Committee recommends that the Trustees approve and adopt modifications to the Investment Guidelines in the form presented at this meeting; and be it
FURTHER RESOLVED, that the Finance and Audit Committee recommends that the Trustees approve and adopt the 2014 Investment Report in the form presented at this meeting.

At approximately 10:53 a.m. the Chair entertained a motion to adjourn, which was duly made and seconded.

Respectfully submitted,

Jon Mostel
II. Discussion of Q1 Financial Results
Utility Debt Securitization Authority  
Billed Revenues Tracking Report  

<table>
<thead>
<tr>
<th>Billing Month</th>
<th>Projected Revenues</th>
<th>Billed Revenues</th>
<th>Dollar Variance</th>
<th>Percent Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2015</td>
<td>6,202,302.46</td>
<td>6,460,249.97</td>
<td>257,947.51</td>
<td>4.2%</td>
</tr>
<tr>
<td>Feb 2015</td>
<td>6,075,076.02</td>
<td>5,818,402.10</td>
<td>-256,673.91</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Mar 2015</td>
<td>5,774,754.15</td>
<td>6,568,177.22</td>
<td>793,423.07</td>
<td>13.7%</td>
</tr>
<tr>
<td>Apr 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jul 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>year-to-date</td>
<td>18,052,132.62</td>
<td>18,846,829.30</td>
<td>794,696.67</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Note: March billed revenues were 13.7% above projections due primarily to weather in February and March that was both colder than normal. Year-to-date billed revenues are 4.4% higher than projections.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2015

Change in Net Position

UDSA has a negative change in net position of $17 million compared to $11 million for the three months ended March 31, 2014. A net loss is expected during this period as the restructuring charge is a component of the Long Island Power Authority customers’ billed electric consumption, which experiences its highest demands during the summer peak period.

Revenues

For the three months ended March 31, 2015 as compared with the three months ended March 31, 2014 revenue from the restructuring charge decreased by $13 million. This is due to a decrease in the restructuring charge imposed on utility customer bills from $.014 to $.004 per KWh. The restructuring charge is set to collect scheduled principal and interest payments on the restructuring bonds. Principal payments due in 2015 have decreased by $75 million as compared with 2014. Although last year’s charge wasn’t in effect until March 1, the increase in sales volume for the period ended March 31, 2015 was offset by the decrease in the restructuring charge and the timing of unbilled sales.

Operating Expenses

For the three months ended March 31, 2015, amortization of the restructuring property decreased by $7 million as compared with the three months ended March 31, 2014. UDSA recognizes the amortization of the restructuring property on a proportionate basis annually based upon the total principal payments due on its restructuring bonds. Principal payments due in 2015 are lower by $75 million as compared with 2014.

The increase in the uncollectible expense of $178,000 is due to the March 1, 2014 implementation of the restructuring charge. Bad debt expense was not applied for the first quarter of 2014, as cash collections began 39 days subsequent to the billed revenue, in April 2014.

Interest charges

For the three months ended March 31, 2015, interest expense, net of amortization of bond premium and bond issuance costs, decreased by $254,000 due to the decrease in outstanding debt as compared with the same time period in 2014.
UTILITY DEBT SECURITIZATION AUTHORITY  
(A Component Unit of the Long Island Power Authority)  
Statements of Net Position  
(Amounts in thousands)  

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2015 (unaudited)</th>
<th>December 31, 2014 (audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash</td>
<td>$ 54,887</td>
<td>22,483</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>13,037</td>
<td>38,338</td>
</tr>
<tr>
<td>Prepaid assets</td>
<td>234</td>
<td>322</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>68,158</strong></td>
<td><strong>61,143</strong></td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring property</td>
<td>2,015,037</td>
<td>2,018,955</td>
</tr>
<tr>
<td>Regulatory asset - unamortized debt issuance costs</td>
<td>12,810</td>
<td>13,146</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>2,027,847</strong></td>
<td><strong>2,032,101</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 2,096,005</strong></td>
<td><strong>2,093,244</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Position</th>
<th>March 31, 2015 (unaudited)</th>
<th>December 31, 2014 (audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current maturities of long-term debt</td>
<td>$ 15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>25,167</td>
<td>3,595</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>335</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>40,502</strong></td>
<td><strong>18,644</strong></td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt, including unamortized premium</td>
<td>2,016,910</td>
<td>2,019,340</td>
</tr>
<tr>
<td><strong>Net position - unrestricted</strong></td>
<td><strong>38,593</strong></td>
<td><strong>55,260</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net position</strong></td>
<td><strong>$ 2,096,005</strong></td>
<td><strong>2,093,244</strong></td>
</tr>
</tbody>
</table>
### Statements of Revenues, Expenses, and Changes in Net Position

(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>$7,264</td>
<td>20,065</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of restructuring property</td>
<td>3,918</td>
<td>11,252</td>
</tr>
<tr>
<td>Uncollectible expense</td>
<td>178</td>
<td>-</td>
</tr>
<tr>
<td>Servicing, administrative and other fees</td>
<td>366</td>
<td>289</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>4,462</td>
<td>11,541</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,802</td>
<td>8,524</td>
</tr>
<tr>
<td>Other income</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2,819</td>
<td>8,524</td>
</tr>
<tr>
<td>Interest charges:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>21,572</td>
<td>20,373</td>
</tr>
<tr>
<td>Amortization of restructuring bond premium and issuance costs</td>
<td>(2,086)</td>
<td>(633)</td>
</tr>
<tr>
<td>Total interest charges</td>
<td>19,486</td>
<td>19,740</td>
</tr>
<tr>
<td>Change in net position</td>
<td>(16,667)</td>
<td>(11,216)</td>
</tr>
<tr>
<td>Net position, beginning of year</td>
<td>55,260</td>
<td>(2,771)</td>
</tr>
<tr>
<td>Net position, end of period</td>
<td>$38,593</td>
<td>(13,987)</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended March 31,</td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues received</td>
<td>$32,387</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$32,387</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings received</td>
<td>17</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>17</td>
<td>—</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>32,404</td>
<td>—</td>
</tr>
<tr>
<td><strong>Restricted cash and cash equivalents, beginning of year</strong></td>
<td>22,483</td>
<td>10,513</td>
</tr>
<tr>
<td><strong>Restricted cash and cash equivalents, end of period</strong></td>
<td>$54,887</td>
<td>10,513</td>
</tr>
<tr>
<td><strong>Reconciliation to net restricted cash provided by operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$2,802</td>
<td>8,524</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net restricted cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of restructuring property</td>
<td>3,918</td>
<td>11,252</td>
</tr>
<tr>
<td><strong>Changes in operating assets and liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid assets and accrued expenses</td>
<td>366</td>
<td>289</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>—</td>
<td>(20,065)</td>
</tr>
<tr>
<td>Net restricted cash provided by operating activities</td>
<td>$32,387</td>
<td>—</td>
</tr>
</tbody>
</table>
III. Discussion of Upcoming Financing
Memorandum

TO: UDSA Finance and Audit Committee
FROM: Kenneth Kane, Managing Director of Finance and Budgeting
SUBJECT: Schedule and Finance Team for Upcoming UDSA Financings
DATE: April 27, 2015

The 2015-16 State Budget signed into law on March 31, 2015 authorized the issuance of up to an additional $2.5 billion of Utility Debt Securitization Authority (UDSA) or UDSA #2 bonds to refinance outstanding Long Island Power Authority (Authority) bonds at a lower cost. The Authority has approximately $2.5 billion of bonds that become eligible for refinancing during 2015-2018, which coincides with its currently pending rate plan period. The Authority seeks to utilize the securitization bond authorization in such a manner as to provide its customers with the greatest possible savings. As such, the Authority anticipates that it will be necessary to execute multiple bond refinancings over the next several years, with the first to occur during 2015.

The Authority has assembled a draft financing schedule for the first such refinancing transaction during 2015, which is attached as Attachment A. The schedule anticipates a series of events beginning with a Finance Team kickoff meeting on April 29th and culminating with the closing of the 2015 refinancing in late September. This schedule requires significant preparation work prior to bringing the refinancing to the UDSA Board in mid-July for approval. The Authority will seek to expeditiously conclude this first financing by adhering as closely as possible to the draft financing schedule.

Attachment B summarizes the proposed members of the Finance Team. The nature of such a securitization transaction is that significant work must be performed prior to the documentation being brought to the UDSA Board for approval, and as such, that work will begin immediately.

Attachment A: Draft Finance Schedule
Attachment B: Proposed Finance Team
## DRAFT Financing Schedule
### USDA 2015 Securitization Transaction
**as of April 22, 2015**

<table>
<thead>
<tr>
<th>Day/Week</th>
<th>Task Description</th>
<th>Responsible Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday, April 27th</td>
<td>UDSA Board Briefed on Upcoming Financing</td>
<td>LIPA</td>
</tr>
<tr>
<td>Wednesday, April 29th</td>
<td>Kickoff Meeting</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Begin Cash Flow Modeling</td>
<td>Underwriter</td>
</tr>
<tr>
<td>Week of May 11th</td>
<td>Distribute Drafts - Financing Order, Indenture, Legal Documents, Servicing Agreement</td>
<td>Counsels</td>
</tr>
<tr>
<td></td>
<td>Distribute Draft Rating Agency Presentation</td>
<td>Underwriter</td>
</tr>
<tr>
<td>Week of May 18th</td>
<td>Engage Rating Agencies</td>
<td>Underwriter, LIPA, PFM</td>
</tr>
<tr>
<td>Monday, May 25th</td>
<td>Memorial Day</td>
<td></td>
</tr>
<tr>
<td>Week of June 1st</td>
<td>Finalize Structure for Financing Order Parameters</td>
<td>Underwriter, LIPA, PFM</td>
</tr>
<tr>
<td>Week of June 8th</td>
<td>Rating Agency Meetings</td>
<td>Underwriter, LIPA, PFM</td>
</tr>
<tr>
<td>Week of June 15th</td>
<td>Hold Public Hearings on Proposed Financing Order</td>
<td>LIPA</td>
</tr>
<tr>
<td>Friday, June 26th</td>
<td>LIPA Board Approves Financing Order and Related Documents</td>
<td>LIPA</td>
</tr>
<tr>
<td>Wednesday, July 1st</td>
<td>LIPA Submits Financing Order to PACB</td>
<td>LIPA</td>
</tr>
<tr>
<td>Friday, July 3rd</td>
<td>Independence Day Observed</td>
<td></td>
</tr>
<tr>
<td>Week of July 20th</td>
<td>USDA Board Approves All Documents</td>
<td>UDSA</td>
</tr>
<tr>
<td>Wednesday, July 22nd</td>
<td>PACB Approves Financing Order</td>
<td>LIPA</td>
</tr>
<tr>
<td>Week of August 3rd</td>
<td>Finalize All Documents</td>
<td>All</td>
</tr>
<tr>
<td>Week of August 24th</td>
<td>Receive Ratings</td>
<td>LIPA</td>
</tr>
<tr>
<td></td>
<td>Mail Preliminary Official Statement</td>
<td>Disclosure Counsel</td>
</tr>
<tr>
<td></td>
<td>Post Roadshow</td>
<td>Underwriter</td>
</tr>
<tr>
<td></td>
<td>Begin Marketing</td>
<td>Underwriter, LIPA, PFM</td>
</tr>
<tr>
<td>Monday, September 7th</td>
<td>Labor Day</td>
<td></td>
</tr>
<tr>
<td>Week of September 14th</td>
<td>Servicer Determines Initial Transaction Charge and Expected Savings</td>
<td>Servicer</td>
</tr>
<tr>
<td></td>
<td>Servicer Files Issuance Advice Letter with LIPA and SPE</td>
<td>Servicer</td>
</tr>
<tr>
<td>Week of September 21st</td>
<td>Print Final Official Statement</td>
<td>Disclosure Counsel</td>
</tr>
<tr>
<td></td>
<td>LIPA Confirms to SPE that Pricing Complies with Financing Order</td>
<td>LIPA</td>
</tr>
<tr>
<td>Week of September 28th</td>
<td>Closing</td>
<td>All</td>
</tr>
</tbody>
</table>
**Attachment B:**

<table>
<thead>
<tr>
<th>USDA Senior Managing Underwriters</th>
<th>USDA Co-Managing Underwriters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Capital Inc.</td>
<td>Academy Securities - SDVOB &amp; MBE</td>
</tr>
<tr>
<td>Citigroup Global Markets Inc.</td>
<td>BMO Capital Markets GKST Inc.</td>
</tr>
<tr>
<td>Merrill Lynch, Pierce, Fenner &amp; Smith</td>
<td>Drexel Hamilton LLC - SDVOB</td>
</tr>
<tr>
<td>RBC Capital Markets, LLC</td>
<td>First Tennessee Bank National Association</td>
</tr>
<tr>
<td></td>
<td>Goldman Sachs &amp; Co.</td>
</tr>
<tr>
<td></td>
<td>J.P. Morgan Securities, LLC</td>
</tr>
<tr>
<td></td>
<td>Jefferies LLC</td>
</tr>
<tr>
<td></td>
<td>KeyBanc Capital Markets</td>
</tr>
<tr>
<td></td>
<td>Loop Capital Markets - MBE</td>
</tr>
<tr>
<td></td>
<td>Morgan Stanley &amp; Co. LLC</td>
</tr>
<tr>
<td></td>
<td>Ramirez &amp; Co., Inc. - MBE</td>
</tr>
<tr>
<td></td>
<td>Raymond James &amp; Associates Inc.</td>
</tr>
<tr>
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<td>US Bancorp</td>
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<td>Wells Fargo Bank NA</td>
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**Bond & Tax Counsel**
- Hawkins Delafield & Wood, LLP

**Disclosure Counsel**
- Squire Patton & Boggs

**Financial Advisor**
- Pubic Financial Management

**UDSA Corporate Counsel**
- Nixon Peabody

**Independent Accountants**
- KPMG, LLP

**Underwriters’ Counsel**
- Selected by Underwriter
LIPA and USDA have an ongoing need for the services of bond underwriters and swap counterparties to finance the capital program and refinance outstanding bonds at a lower cost. Periodically, LIPA issues a Request for Proposals (“RFP”) to pre-qualify a pool of such firms on behalf of both LIPA and USDA. Then as financing needs arise the LIPA seeks ideas and advice from its pre-qualified pool on how best to finance each transaction. This process results in the selection of one or more of the pre-qualified firms for each transaction. The LIPA and USDA Boards, as necessary, approve the firms selected for each transaction alongside the approval of each individual bond financing.

LIPA issued an RFP on February 20, 2015, seeking a pool of qualified firms to provide such services. The last such RFP was issued in January 2012. Respondents to the RFP were evaluated based on five separate categories of potential services that they might provide: senior managing underwriters for LIPA; senior managing underwriters for USDA; co-managing underwriters; remarketing agents and/or broker dealers for variable-rate debt, notes, and commercial paper; and swap counterparties.

The RFP was advertised in the New York State Contract Reporter, posted on the LIPA website and distributed to 527 firms, including 472 New York State Certified MWBE firms and 7 New York State Certified Service-Disabled Veteran Owned Business.

On March 20, 2015, 36 firms responded to the RFP of which 12 were New York State Minority Business Enterprise (MBE), 3 were New York State Woman Business Enterprise (WBE) and 3 were New York State Service-Disabled Veteran Owned Businesses. Each of the proposals were evaluated by a selection committee comprised of LIPA staff members Kenneth Kane, Corey Horowitz, John Little and LIPA’s financial advisors. The proposals were first reviewed for compliance with the terms of the RFP and then evaluated against the criteria set forth in the RFP.

Based on the written submissions and oral interviews (where needed to differentiate firms), the selection committee concluded that the pre-qualified pools set forth below possess the skills and experience necessary to fulfill LIPA and USDA’s needs. In particular, the firms selected as senior managing underwriters offer LIPA and USDA broad-based experience with large public power clients and securitization transactions. These firms demonstrated a superior understanding of LIPA and USDA’s financing needs and presented high quality ideas related thereto.
**LIPA Senior Managing Underwriters:**
Barclays Capital Inc.
Citigroup Global Markets Inc.
Goldman Sachs & Co.
J.P. Morgan Securities, LLC
Merrill Lynch, Pierce, Fenner & Smith
Morgan Stanley & Co. LLC
Ramirez & Co., Inc. - MBE
Raymond James & Associates Inc
RBC Capital Markets, LLC
Siebert Brandord Shank & Co, LLC - MBE
Wells Fargo Bank NA

**UDSA Senior Managing Underwriters:**
Barclays Capital Inc.
BMO Capital Markets GKST Inc.
Citigroup Global Markets Inc.
Goldman Sachs & Co.
J.P. Morgan Securities, LLC
Merrill Lynch, Pierce, Fenner & Smith
Morgan Stanley & Co. LLC
RBC Capital Markets, LLC
Wells Fargo Bank NA

**Co-Managing Underwriters:**
Academy Securities -SDVOB & MBE
Barclays Capital Inc.
BMO Capital Markets GKST Inc.
Citigroup Global Markets Inc.
Drexel Hamilton LLC -SDVOB
First Tennessee Bank National Association
Goldman Sachs & Co.
J.P. Morgan Securities, LLC
Jefferies LLC
Key Banc Capital Markets
Loop Capital Markets - MBE
Merrill Lynch, Pierce, Fenner & Smith
Morgan Stanley & Co. LLC
Ramirez & Co., Inc. - MBE
Raymond James & Associates Inc
RBC Capital Markets, LLC
Siebert Brandord Shank & Co, LLC - MBE
TD Securities, LLC
US Bancorp
Wells Fargo Bank NA
**Remarketing Agents/Broker Dealers:**
Barclays Capital Inc.
BMO Capital Markets GKST Inc.
Citigroup Global Markets Inc.
Goldman Sachs & Co.
J.P. Morgan Securities, LLC
Jefferies LLC
Loop Capital Markets - MBE
Merrill Lynch, Pierce, Fenner & Smith
Morgan Stanley & Co. LLC
Ramirez & Co., Inc. - MBE
Raymond James & Associates Inc
RBC Capital Markets, LLC
Siebert Brandord Shank & Co, LLC - MBE
TD Securities, LLC
US Bancorp
Wells Fargo Bank NA

**Swap Counterparties:**
Barclays Capital Inc.
BMO Capital Markets GKST Inc.
Citigroup Global Markets Inc.
Goldman Sachs & Co.
Morgan Stanley & Co. LLC
Merrill Lynch, Pierce, Fenner & Smith
PNC Capital Markets, LLC
RBC Capital Markets, LLC
TD Securities, LLC
US Bancorp
Wells Fargo Bank NA
IV. Discussion of USDA Policies and Procedures
Overview of UDSA Activities Performed by LIPA

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<th>Issue Bonds</th>
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<td>Obtain Ratings and Pre-Market to Investors</td>
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<td>Structure and Sell Bonds</td>
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<td>Maintain Investor Relations</td>
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<tr>
<th>Determine Securitization Charge</th>
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<td>Charge can be adjusted at any time to ensure adequacy</td>
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<tr>
<td>Billing and collection reports are issued monthly showing daily collections</td>
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<th>Remit Revenues</th>
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<tr>
<td>Transfer revenues from allocation account to collection account</td>
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<tr>
<td>Provide daily advice to Bond Trustee</td>
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## Overview of USDA Activities Performed by LIPA (cont.)

| Pay Principal and Interest on Bonds | Confirm adequacy of funds  
|                                    | Issue advice to Bond Trustee  
|                                    | Bond Trustee transfers funds |
| Pay All Other Expenses             | Insurance Services  
|                                    | External Auditors  
|                                    | Bond Administration and Bank Trustee Fees  
|                                    | Legal Counsel Fees  
|                                    | Servicer Fees and Administration fees |
| Accounting and Budgeting           | Record cash transactions  
|                                    | Prepare intercompany separations and accruals  
|                                    | Prepare quarterly and annual results  
|                                    | Coordinate end of year financial audit  
|                                    | Prepare Annual Budget |
| All Other Functions                | Governance  
|                                    | Procurement  
|                                    | Compliance  
|                                    | Internal Audit |
Utility Debt Securitization Authority

Policies and Procedures
April 26, 2015
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Background

The Utility Debt Securitization Authority (UDSA) was created by the LIPA Reform Act, which was signed into law on July 29, 2013. UDSA was formed for the purpose of issuing securitized bonds, a portion of the sales of which were used to purchase the Restructuring Property from the Authority. The Restructuring Property consists of the right to impose, bill and collect the Charges described in the “Restructuring Cost Financing Order”.

The Servicer of UDSA (LIPA) imposes, bills and collects from customers of the electric transmission and distribution services in the Service Area the Securitization Charge, as adjusted from time to time in accordance with the Financing Order, until the principal of and interest on the Bonds and the related ongoing financing costs have been paid in full.

Securitization Charge

As of March 1, 2014, LIPA (as Servicer) began charging the customers in the service area the KWh Securitization Charge, calculated by LIPA’s Rates Department (Rates Department) and remitting that revenue to UDSA. The Securitization Charge is part of the LIPA bill for delivery service, but is not shown as a separate charge. LIPA (as servicer) bills each customer for the UDSA Securitization Charge, collects the charge revenue as part of the total electric bill to be collected, allocates the total revenue collected between LIPA and the UDSA, and remits the UDSA share to the UDSA’s bank trustee, Bank of New York (BNY). The UDSA Charge is calculated to collect sufficient revenue to meet each scheduled payment on the UDSA debt, plus recover all of the operating costs of the UDSA. The UDSA Charge is formally evaluated semi-annually, to correspond with each upcoming payment date, and may be increased as necessary at any time, to ensure that sufficient revenues have been collected to meet each scheduled payment on the outstanding UDSA debt.
I. **RATES**

The Rates Department performs the following functions on a periodic basis:

1. Annual USDA Rate Calculation
2. Annual USDA Budget
3. Monthly Servicer Report
4. Semi-Annual and Annual Servicer Report

There are currently no scheduled ad hoc requirements, although general support to the USDA and related financing initiatives are routinely performed as required.

A. **Annual USDA Rate Calculation**

The USDA rate is calculated on an annual basis and provided for public comment 30 days prior to becoming effective. The USDA rate is calculated to recover sufficient revenues to meet the scheduled payment of principal and interest on June 15th and December 15th of each year, as well as recover all other expenses incurred by the USDA. If the June 15th (mid-year) payment requires a higher rate than the annual rate sufficient to meet both the June 15th and December 15th payments, then that higher mid-year rate will become effective on January 1st of that year, and the rate will be lowered effective July 1st to accommodate the December 15th payment.

The mid-year and annual rate calculation is performed using an excel spreadsheet that incorporates:

- Scheduled debt service payments for the two periods in the coming year.
- Estimates for all other expenses to be incurred for the two periods in the coming year.
- Estimates for revenues billed or collected since the current year’s December 15th payment.
- Estimates for days sales outstanding in the coming year (based on prior year experience).
- Estimates for uncollectible revenue factor in the coming year (based on actual prior year experience).
- Projected billed sales for the two rate periods in the coming year.

The calculated rates for the mid-year and annual period is provided to the Finance Team (Managing Director of Finance and Controller) for review and then forwarded to the Chief Financial Officer (CFO) for approval before posting.

The calculated rates, after approval by the CFO, are posted to the USDA website for public review and comment. They are also e-mailed to the same distribution list that receives the monthly servicer certificates (Board of Trustees (Trustees), rating agencies, and LIPA staff). The Securitization Charge is found on the USDA website at [http://www.lipower.org/UDSA/financials](http://www.lipower.org/UDSA/financials) under Securitization Charge.
B. Annual USDA Budget

The USDA budget is prepared annually for the Trustees to meet the requirements of the Public Authorities Law. The budget is based on the annual rate calculations for that budget year.

The budget incorporates adjustments that alter the calculated rate (prepared on a cash basis) to an accounting (GAAP accrual) basis. The budget also reflects the entire 12 months of the budget year, whereas the rate calculation may incorporate carry-forwards of revenues accrued in the prior year and typically terminates prior to the end of the calendar year (to reflect revenues billed and collected prior to the December 15th payment date).

The annual budget is provided to the Finance Team (Managing Director of Finance and Controller) for review and then forwarded to the CFO for approval before providing to the Trustees for consideration. Upon approval by the Trustees, the annual budget is filed on with the Public Authority Reporting Information System (PARIS). The annual budget is available on the USDA website.

C. Monthly Servicer Reports

The monthly tracking report and the monthly servicer certificate are prepared monthly by the Rates Department based on daily tracking of billed sales (kWhs) as provided by PSEG Long Island (PSEG-LI). The monthly servicer certificate is distributed and posted to the USDA website at the same time as the monthly tracking report.

The monthly tracking report is prepared using an excel spreadsheet. The Rates Department receives weekly updates on billed sales from PSEG-LI every Monday for each day of the prior week. It is reviewed for anomalies or other noteworthy items, and inquiries or investigations are made as needed, and upon satisfaction of such investigations, the daily billed sales (in kWhs) for each day are entered into the spreadsheet. Once updated, that spreadsheet is available to other members of the Finance team for use in tracking and scheduling remittances to the BNY, and for other purposes.

At the completion of each calendar month, the monthly tracking report is reviewed, appropriate commentary is added to the bottom of the report, and a pdf version of report is printed for distribution and posting on the USDA website at LIPOWER.org/USDA/financials under tracking report. The current month’s tracking report replaces the prior month’s tracking report throughout the year. The December report for each year should remain on the website to provide historic information.

Also at the end of the month, the Monthly Servicer Certificate is prepared. This document is updated for the current calendar month and the values are updated for that same period. Following final review by the preparer, whose signature appears at the bottom of the Certificate, the report is printed in pdf format, distributed via e-mail and posted to the USDA website at LIPOWER.org/USDA/financials under monthly certificate.
D. **Semi-Annual Servicer Certificate**

The semi-annual servicer certificate is prepared by the Rates Department shortly after June 15 and December 15 of each year. Information for each period is collected from the USDA tracking report (spreadsheet), accounting system (for expenditures in the semi-annual period) and debt service schedules for each maturity of each issuance. The data is reviewed by the Rates Department (which ultimately signs the report) and then forwarded to the Controller, Managing Director of Finance and CFO for review and comment before distributing the certificate to the e-mail distribution list of Trustees, bond rating agencies, and Authority staff. The semi-annual service certificate is found on the USDA website at LIPOWER.org/USDA/financials under semi-annual certificates.

E. **Annual Servicer Certification**

The Annual Servicer Certificate of Compliance is prepared by the Rates Department for signature by the CFO each year by December 31st. The signed form is distributed to the e-mail distribution list and posted to the USDA website under LIPOWER.org/USDA/financials under annual certificate.

F. **E-mail Distribution List**

The e-mail distribution list consists of Trustees, three rating agencies, Bank Trustee and LIPA staff. The current list includes:

- Paul Francis  
  USDA Trustee
- Robert Gurman  
  USDA Trustee
- Bruce Levy  
  USDA Trustee
- Fitch Ratings ABS Surveillance  
  Rating Agency
- Fitch Ratings Service  
  Rating Agency
- Moody's Investor Service, Inc.  
  Rating Agency
- Standard & Poor's Rating Services  
  Rating Agency
- Frederic Belen (bnymellon)  
  Bank Trustee
- Jon Mostel  
  LIPA Staff
- Bobbi OConnor  
  LIPA Staff
- Kenneth Kane  
  LIPA Staff
- Mary Rynn  
  LIPA Staff
- Thomas Falcone  
  LIPA Staff

Also, a cc: is sent to the USDA 17g-5 repository. This must be sent as a cc: to be recognized by the 17g-5 system.
II. **CASH MANAGEMENT & INVESTMENT PROCEDURES**

The Treasury Department performs the follow functions:

A. Funding of the Collection Account  
B. Debt Service Payments  
C. Miscellaneous Payments  
D. Investments  
E. Investment Reports

A. **Funding of Collection Account**

1. On a monthly basis the Rates Department provides the LIPA Treasury Department (Treasury) with the required remittance information for the upcoming month, the Monthly Servicer Report.

2. Treasury prepares an Authorization letter for the CFO’s signature for the BNY detailing the wire dates and the respective amounts that will be transferred during the month. Copies are sent to the following: 1) CFO 2) Accounting Department 3) Rates Department 4) Managing Director of Finance and Budget and 5) PSEG-LI “Payment Processing”.

3. The monthly letter to the BNY serves as authorization for Treasury to initiate and release daily wires using the schedule provided. Wires are scheduled each Monday morning for the following week.

4. Wires are initiated from using predefined wire instructions to be submitted to BNY account. As with all wire transfers, appropriate segregation of duties is followed whereby one person enters the wire and a different individual releases the wire.

5. An automated process has been set up with the BNY such that at the close of business each day the available cash balance is swept and automatically invested into a permissible investment in accordance with the USDA investment guidelines.

6. Monthly bank statements are sent by BNY to Treasury. These reports are reconciled to USDA general ledger records to ensure accuracy based of cash transfers initiated within the period by Treasury. Interest Income is also reviewed and booked in the general ledger. See section III .5.a. for reconciliation process performed separately by LIPA’s Accounting Department (Accounting).

7. Journal entries are prepared by Accounting in the USDA general ledger to reflect transfers as follows: Treasury books the LIPA cash transfer and Accounting books the intercompany activity.

   **Monthly Transfer**
   - Debit: USDA Cash Collection
   - Credit: LIPA Customer Allocation
Net Income
  o Debit: USDA Cash Collection Account
  o Credit: USDA Interest Income

B. Debt Service Payments

1. Treasury maintains a schedule of outstanding debt for USDA. Principal and interest payments are monitored and typically two weeks prior to a payment date; amounts due to be paid are confirmed with the BNY with a notice of principal and interest due for both the Taxable or Tax Exempt bonds.

2. Treasury prepares a letter for the CFO’s signature which authorizes BNY to redeem investments to meet any debt service obligations; or any other Redemption and/or movement of cash. Accounting prepares the journal entries necessary to reflect the payment of debt service once Treasury has provided Accounting with proof of payment.

C. Miscellaneous Payments

1. As administrator for USDA, LIPA is entitled to an administrative fee, and is reimbursed for all eligible expenses paid by LIPA on behalf of USDA during the year. Accounting submits to Treasury a reimbursement request, and Treasury transfers cash from USDA to LIPA from BNY to LIPAs Revenue Account. A summary of the expenses is to be attached to the Wire transfer authorization letter sent to the BNY providing support for reimbursement.

2. Accounting prepares a journal entry for this reimbursement.

D. Investment Activity

1. The USDA has Investment Guidelines that detail authorized investments and procedures. New investments are reviewed and approved by the CFO to ensure compliance with the Investment Guidelines.

2. A confirmation recording the investment transaction is prepared by Treasury for signature by the CFO.

3. A separate spreadsheet is maintained by Treasury which shows all investments which details the counterparty name, ratings, amount, maturity dates and yields.

E. Reports

1. Quarterly investment reports are prepared by Treasury for the Trustees.

2. An Annual Investment Report is prepared and approved by the Trustees. The Investment Guidelines must also be reviewed and approved annually, by the Trustees.

The Annual Investment Report is mailed to:
  a. Chairman NYS Assembly Ways & Means Committee
  b. Chairman NYS Senate Finance Committee
  c. Budget Director NYS Division of Budget.
  d. Office of State Comptroller
III. **ACCOUNTING**

The Accounting Department performs the follow functions:

- A. Records monthly revenue and associated bad debt expense
- B. Records monthly expenses including interest expense and amortization of restructuring property
- C. Records cash collections
- D. Records Servicing and Administrative Fees
- E. Performs Account Reconciliations
- F. Quarterly and Annual required Financial Reporting

**A. Revenues**

1. On a monthly basis, Accounting receives the revenue data from PSEG-LI. Revenue is provided in total, with no designation made between LIPA revenue and securitization charge. LIPA reports revenue, in total, on LIPA’s consolidated books.

2. Using the Monthly Servicer Report (Securitization Charge Remittance excel file) provided by the Rates Department, Accounting records the securitization charge on UDSA’s books as follows:
   - Debit: Accounts Receivable
   - Credit: Revenue

3. There is a corresponding entry made, recording a reduction on LIPA’s books to account for the securitization charge revenues as follows:
   - Debit: Restructuring Charge
   - Credit: Accounts Receivable Contra Account

4. In order to ensure the accuracy of the file submitted to Accounting by the Rates Department, LIPA Accounting will use the operating revenue report and maintain a year to date (YTD) file of the KWH to recalculate the YTD revenue for UDSA.

**B. Expenses**

1. Interest Expense Accrual:
   - a. On a monthly basis, interest expense and the accrued interest are recorded for the outstanding restructuring bonds suing a schedule maintained with all bonds outstanding with their corresponding interest rates.
      - Debit: Interest Expense
      - Credit: Accrued Interest Payable
   - b. As interest payments are made on bonds, the accrual schedule is updated and reconciled to the general ledger.
2. Amortization of Bond Premium:
   a. UDSA Restructuring Bonds Series 2013T and 2013TE were sold above par value resulting in a premium. Bond premiums are being amortized by each bond series over the life of each bond.
   b. The monthly journal entry recorded is as follows:
   o Debit: Bond Premium
   o Credit: Interest Other Expense

3. Bond Issuance Costs:
   a. Bond Issuance Costs are being amortized by series in proportion to each tranche’s percentage to the total, over the life of each tranche.
   b. Accounting records the following monthly journal entry:
   o Debit: Interest Other Expense
   o Credit: Bond Issuance Costs

4. Servicing and Administration Fees:
   a. In accordance with the “Restructuring Cost Financing Order”, LIPA is acting as both the Servicer and Administrator of the USDA. As Servicer, LIPA is entitled to an annual servicing fee of .05% of the initial balance of bonds issued ($2,022,324,000). As Administrator, LIPA is entitled to an annual fee of $100,000 payable semiannually.
   b. Servicing Fee Monthly Journal Entry:
   o Debit: Servicing Fee Expense
   o Credit: Due to LIPA
   c. Administration Fee Monthly Journal Entry:
   o Debit: Administration Fee
   o Credit: Due to LIPA
   d. Corresponding intercompany entries are recorded on LIPA’s books to reflect the above transactions.
   e. At the end of each year USDA transfers funds to LIPA to pay these fees. Accounting submits the support for the cash transfer to Treasury. (See Cash Section below).

5. Other USDA Expenses:
   a. In addition to the servicing and administration fees above, USDA will reimburse LIPA, as Servicer/Administrator, for expenses it incurs in connection with the services it provides under the Servicing Administration Agreements.
   b. In accordance with the Official Statement (Priority of Payments section) – on each payment date, or any business day, the amounts payable to LIPA will be remitted, upon written request by the Administrator, and, at the discretion of the Trustee.
6. Amortization of Restructuring Charges:
   
a. To be consistent with Article (e), Section 3.08 of the “Restructuring Property Purchase and Sale Agreement”:
   
The annual amortization is based on the annual principal payments due for Series 2013 T&TE. The restructuring property is being amortized in accordance with these percentages.
   
Accounting records the following journal entry on a monthly basis:
   
   o Debit: Amortization of Restructuring Property
   
   o Credit: Accumulated Amortization Restructuring Property

b. On LIPA’s books, the following corresponding journal entry is recorded:
   
   o Debit: Accumulated Amortization – Restructuring Property
   
   o Credit: Amortization – Restructuring Property

7. Bad Debts:
   
a. Included within the Monthly Servicer Report (Securitization Charge Remittance) is a calculation reducing the securitization charge revenue for assumed bad debts. Accounting records the bad debt expense with a reduction to Accounts Receivable as follows:
   
   o Debit: Bad Debt Expense
   
   o Credit: Accounts Receivable

b. A corresponding entry must be recorded on LIPA’s books to account for the bad debt expense that was recorded, in total, on LIPA’s books and now being segregated between UDSA and LIPA. LIPA entry is recorded as follows:
   
   o Debit: Accounts Receivable Contra
   
   o Credit: Bad Debt Expense

C. Cash Process

1. Customer Remittances:
   
a. The Rate’s Department annually calculates LIPA’s Days Sales Outstanding (DSO). Daily cash cycle reports are provided to the Rate’s Department to apply the write off rate to which are apply the securitization rate to the day’s receipts. The Rates Department set a schedule for the securitization charge remittance to the BNY. All customer collections are received into the Customer Allocation bank account and subsequently, the cash is transferred out of LIPA’s bank account and transferred to UDSA Cash Collection Account.

Accounting records the amount remitted to the Trustee as follows:

   o Debit: UDSA Cash Collection Account
   
   o Credit: Customer Allocation Account
b. Accounting records a journal entry to reduce Accounts Receivable for cash received as follows:
   - Debit: Due to Sub
   - Credit: Accounts Receivable

The corresponding journal entries are recorded on LIPA’s books to reflect the above transactions as follows:
   - Debit: Accounts Receivable Contra
   - Credit: Due to USDA

2. Interest Payments:
   a. The Restructuring bonds 2013T and 2013TE pay interest semi-annually beginning December 15, 2014. Payments will be remitted out of the Collection Bank Account held by BNY. Accounting records a journal entry in the month of payment as follows:
      - Debit: Accrued Interest Payable
      - Credit: USDA Cash Collection Account

3. Principal Payments:
   c. Principal payments began on December 15, 2014 and are remitted from the Collection Bank Account. Accounting records the following entry:
      - Debit: USDA Debt
      - Credit: USDA Cash Collection Account

4. Other Expenses:
   As LIPA processes all payments made on behalf of the USDA, on a periodic basis the Treasury will transfer the funds from the USDA cash collection account to the LIPA operating account to refund LIPA for any USDA expenses paid.

D. Payment of Servicing/Administration fees and Reimbursement of Expenses Paid

1. As discussed in Section 2(e) above, USDA shall reimburse LIPA as Servicer/Administrator for expenses incurred, as well as pay LIPA the annual Servicing Fee and Administration Fee.

2. LIPA maintains the cash accounts to pay expenses. Therefore, upon expense payment, a journal entry is prepared between USDA and LIPA.

3. LIPA, as the Servicer and Administrator is entitled to Fee income associated with these duties, as discussed in 2(d) above. USDA remits funds to LIPA and a journal entry is recorded on the ledgers – eliminating the payable/receivable between USDA and LIPA.

E. Account Reconciliations

1. Bank reconciliations are performed monthly by Accounting and reviewed by the Controller.

2. All other general ledger accounts are reconciled quarterly by Accounting and reviewed by the Controller.
F. **Financial Reporting**

1. Quarterly Statements of Net Position, Statements of Revenue, Expenses, and Changes in Net Position (including year over year variance analysis), and the Statements of Cash Flows are posted to UDSA website.

2. Annual Financial Statements are audited by external auditors and must be approved by UDSA’s Trustees by March 31.

3. An auditor 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 will also be prepared by external auditors by March 31.

4. Upon approval, the audited Financial Statements are posted to the UDSA website.

5. The Annual Financial Statements are also included in the PARIS by March 31.

6. An Annual Report on Investment Compliance will be prepared by external auditors and will be provided to the Trustees by March 31.
V. Consideration of Approval of USDA Internal Audit Charter
FOR CONSIDERATION
April 27, 2015

TO: Finance & Audit Committee

FROM: Kathleen H. Mitterway, LIPA’s Director of Audit

SUBJECT: Internal Audit Charter

REQUEST: Adoption of the Utility Debt Securitization Authority Internal Audit Charter

Requested Action

The Trustees are being requested to adopt the Utility Debt Securitization Authority (the “Authority”) Internal Audit Charter (the “Charter”) in the form attached hereto.

Background

The Institute of Internal Auditors International Professional Practices Framework, through Standard 1000: Purpose, Authority, and Responsibility, prescribes that:

“The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”

For all purposes, the Finance and Audit Committee (F&A Committee) carries out the Board’s administration and oversight of the Internal Audit function (and references to the “Board” in the Charter shall be to the F&A Committee).

The Charter is a formal document that defines the internal audit function’s purpose, authority, and responsibility. The Charter establishes the internal audit function’s position within the organization, including the nature of the Director of Audit’s (chief audit executive) functional reporting relationship with the F&A Committee; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the F&A Committee.

Providing a formal, written internal audit charter is critical in managing the Internal Audit function. The Charter provides a recognized statement for review and acceptance by management and for approval, as documented in the minutes, by the F&A Committee.

It also facilitates a periodic assessment of the adequacy of the Internal Audit function’s purpose, authority, and responsibility, which establishes the role of the Internal Audit function. If a question should arise, the Charter provides a formal, written agreement with management and the F&A Committee about the internal audit activity.
The Director of Audit is responsible for periodically assessing whether the Internal Audit function’s purpose, authority, and responsibility, as defined in the Charter, continue to be adequate to enable the activity to accomplish its objectives. The Director of Audit is also responsible for communicating the result of this assessment to senior management and the F&A Committee.

As proposed, LIPA staff believes the Charter represents a reasonable and appropriate guide for the Authority’s Internal Audit functions.

Recommendation

Based upon the foregoing, it is recommended that the Trustees adopt a resolution in the form of the draft resolution attached hereto.

Attachment
Exhibit A Resolution
Exhibit B USDA Internal Audit Charter
WHEREAS, the Finance & Audit Committee (the “Committee”) of the Utility Debt Securitization Authority (the “Authority”) has reviewed the proposed Internal Audit Charter and believes it is reasonable and appropriate to adopt for the reasons set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that the Committee hereby adopts the Authority’s “Internal Audit Charter” in the form presented at this meeting; and be it further

RESOLVED, that this resolution take effect immediately.
UTILITY DEBT SECURITIZATION AUTHORITY
INTERNAL AUDIT CHARTER

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Utility Debt Securitization Authority (the “Authority”). It assists the Authority in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

ROLE:

The internal audit function is established by the Board of Trustees of the Authority and is overseen by the Finance and Audit Committee of the Board of Trustees of the Authority. For all purposes, the Finance and Audit Committee carries out the Board’s administration and oversight of the Internal Audit function. The internal audit function’s responsibilities are defined by this Charter.

PROFESSIONALISM:

The internal audit activity will be governed by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance.

The Institute of Internal Auditors’ Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to the Authority’s relevant policies and procedures.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Authority’s records, physical properties, and personnel, including trustees of the Authority, pertinent to carrying out any engagement. All employees of the Authority and the Long Island Power Authority (“LIPA”) are expected to assist the internal audit activity in fulfilling its roles and responsibilities.

ORGANIZATION:

The director of audit will report functionally to the Authority’s Board and administratively (i.e. day to day operations) to the Chief Executive Officer of LIPA.
The UDSA Board will

- Approve the internal audit charter.
- Receive communications from the director of audit on the internal audit activity’s performance relative to its plan and other matters.
- Make appropriate inquiries of management and the director of audit to determine whether there is inappropriate scope or resource limitations.

The director of audit will communicate and interact directly with the UDSA Board, including in executive sessions and between UDSA Board meetings as appropriate.

**INDEPENDENCE AND OBJECTIVITY:**

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor’s judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The director of audit will confirm to the Authority Board, at least annually, the organizational independence of the internal audit activity.

**RESPONSIBILITY:**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization’s governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization’s stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organization’s objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
• Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
• Monitoring and evaluating governance processes.
• Monitoring and evaluating the effectiveness of the organization’s risk management processes.
• Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
• Reporting periodically on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan.
• Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
• Evaluating specific operations at the request of the Board or management, as appropriate.

INTERNAL AUDIT PLAN:

At least annually, the director of audit will submit to Authority management and the Authority’s Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The director of audit will communicate the impact of resource limitations and significant interim changes to Authority management and the Authority’s Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of Authority management and the Authority’s Board. The director of audit will review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to Authority management and the Authority’s Board through periodic activity reports.

REPORTING AND MONITORING:

A written report will be prepared and issued by the director of audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Authority’s Board.

The internal audit report may include Authority or LIPA management’s response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management’s response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.
The director of audit will periodically report to Authority and LIPA management and the Authority’s Board on the internal audit activity’s purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Authority management and the Authority’s Board.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The director of audit will communicate to Authority and LIPA management and the Authority’s Board on the internal audit activity’s quality assurance and improvement program, including results of ongoing internal assessments and external assessments.

Internal Audit Activity Charter

Approved this _________ day of ____________, __________.

________________________________
Director of audit

____________________________________         ______________________________________
Chairman of the Finance & Audit Committee        Chief Executive Officer of USDA
VI. Discussion of Internal Audit Plan
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