FOR CONSIDERATION
March 18, 2019

TO: The Finance and Audit Committee of Board of Trustees

FROM: Thomas Falcone

REQUEST: Recommendation to Approve the 2018 Financial Report of the Utility Debt Securitization Authority

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Requested Action

The Finance and Audit Committee of the Board of Trustees (the "Committee") is being requested to recommend approval of the proposed financial report section of the 2018 annual report of the Utility Debt Securitization Authority (the "Authority"), prepared in accordance with Section 2800(1) of the Public Authorities Law ("PAL"), in the form attached hereto as **Exhibit "B"**.

Background

Section 2800(1) of the PAL requires that the Authority submit an annual report to the Governor, the Chairman and ranking minority member of the Senate Finance committee, the Chairman and ranking minority member of the Assembly Ways and Means committee, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of the Authority's fiscal year. The annual report includes, among other things, the Authority's financial report for the fiscal year just ended. Under Section 2800(1)(a)(2) of PAL, the financial report shall include the following: audited financials; grant and subsidy programs; operating and financial risks; current bond ratings; and long-term liabilities (the "Financial Report"). Section 2800(3) of PAL requires the Financial Report to be approved by the Trustees.

Recommendation

Based upon the foregoing, it is recommended that the Board adopt a resolution in the form attached hereto as **Exhibit "A"**.

Attachments

Exhibit "A" Resolution
Exhibit "B" Financial Report of the Utility Debt Securitization Authority

Exhibit "A"

RESOLUTION RECOMMENDING APPROVAL OF THE 2018 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 Board of Trustees.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the 2018 Financial Report of the Utility Debt Securitization Authority, in the form presented at this meeting.

Dated: March 18, 2019

Exhibit "B"

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

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Independent Auditors' Report

The Board of Trustees
Utility Debt Securitization Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority and the State of New York, which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the UDSA as of December 31, 2018 and 2017, and its changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019 on our consideration of the UDSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control over financial reporting and compliance.

(signed) KPMG LLP

New York, NY
March 18, 2019

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Management's Discussion and Analysis
(Unaudited)

December 31, 2018 and 2017

Overview of the Financial Statements

The management's discussion and analysis of the financial performance of the Utility Debt Securitization Authority (UDSA) provides an overview for the years ended December 31, 2018 and 2017. The discussion and analysis should be read in conjunction with the Basic Financial Statements that follow this section. The notes to the UDSA's Basic Financial Statements provide additional information on certain components of these statements.

The UDSA's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Management's Discussion and Analysis of Financial Condition and Results of Operations

Nature of Operations

The UDSA was created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the "Securitization Law"). The Securitization Law allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Securitization Law permits the Authority's Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA may issue Restructuring Bonds in an amount not to exceed a $4.5 billion statutorily authorized amount (inclusive of any previously issued Restructuring Bonds). The Restructuring Bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all Authority utility customer bills. The Authority's Board adopted Financing Order No. 1 on October 3, 2013, Financing Orders No. 2, No. 3 and No. 4 on June 26, 2015 and Financing Order No. 5 on September 29, 2017, each authorizing the UDSA to issue Restructuring Bonds. All such financing orders are substantively the same. Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. A total of $4.5 billion of UDSA Restructuring Bonds have been issued, with no statutory capacity remaining.

Below is a summary of the financing results of each Financing Order:

(Amounts in thousands)

		Order No. 1 2013 Restructuring Bonds	Order No. 2 2015 Restructuring Bonds	Order No. 3 2016A Restructuring Bonds	Order No. 4 2016B Restructuring Bonds	Order No. 5 2017 Restructuring Bonds
Issuance Date		December 18, 2013	October 27, 2015	April 7, 2016	September 8, 2016	November 21, 2017
Amount Issued	$	2,022,324	1,002,115	636,770	469,320	369,465
Net Present Value Savings	$	131,609	127,978	115,238	71,647	45,387
Average Life		14.2 years	15.6 years	11.8 years	6.9 years	16.7 years
All-in Cost		4.22%	3.40%	2.70%	2.01%	3.45%

For a further discussion of the UDSA, see the notes to the Basic Financial Statements.

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Management's Discussion and Analysis
(Unaudited)

December 31, 2018 and 2017

Financial Condition Overview

The UDSA's Statements of Net Position as of December 31, 2018, 2017 and 2016 are summarized below:

		(Amounts in thousands)		
		2018	**2017**	**2016**
Assets				
Current assets	$	173,837	162,360	128,267
Non-current assets		4,523,469	4,696,155	4,383,747
Total assets		4,697,306	4,858,515	4,512,014
Liabilities and Net Position				
Current liabilities		139,500	132,573	90,108
Non-current liabilities		4,457,610	4,634,508	4,360,731
Net position-restricted		100,196	91,434	61,175
Total liabilities and net position	$	4,697,306	4,858,515	4,512,014

2018 Compared to 2017

The changes in the UDSA's financial condition as of December 31, 2018 and 2017 were as follows:

Current assets increased by $11 million compared to 2017 due to increased cash and investment balances of $15 million partially offset by lower accounts receivable balances of $4 million.

Non-current assets decreased by $173 million compared to 2017 due to the scheduled amortization of the Restructuring Property.

Current liabilities increased by $7 million compared to 2017 due to increased scheduled current maturities of long-term debt.

Non-current liabilities decreased by $177 million compared to 2017 due to $131 million in scheduled current maturities of long-term debt and amortization of debt premium of $46 million.

2017 Compared to 2016

The primary changes in the UDSA's financial condition as of December 31, 2017 and 2016 were as follows:

Current assets increased by $34 million compared to 2016 due to increased cash and investment balances of $21 million and increased accounts receivable balances of $14 million resulting from the additional Financing Order issued in 2017, which imposed an additional Restructuring Charge on utility customer bills.

Non-current assets increased by $312 million compared to 2016 due to the issuance of the additional Restructuring Property under Financing Order No. 5 partially offset by the scheduled amortization of the Restructuring Property.

Current liabilities increased by $42 million compared to 2016 due to scheduled current maturities of long-term debt.

Non-current liabilities increased by $274 million compared to 2016 due to the issuance of the 2017 Restructuring Bonds, totaling $440 million, including premium, partially offset by $122 million in scheduled current maturities of long-term debt and amortization of debt premium of $44 million.

Results of Operations

The UDSA's Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2018, 2017 and 2016 are summarized as follows:

(Amounts in thousands)

		2018	2017	2016
Operating revenues	$	339,072	297,679	278,975
Operating expenses		176,101	122,198	108,949
Operating income		162,971	175,481	170,026
Interest charges and credits		(157,161)	(146,211)	(134,678)
Other income		2,952	989	225
Change in net position		8,762	30,259	35,573
Restricted net position, beginning of year		91,434	61,175	25,602
Restricted net position, end of year	$	100,196	91,434	61,175

2018 Compared to 2017

Revenues increased by $41 million compared to 2017 due to the higher debt service requirements resulting from the additional Financing Order bonds issued in November 2017 and higher scheduled debt maturities.

Operating expenses increased by $54 million compared to 2017 due to the higher amortization of Restructuring Property, which is amortized annually based on total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits increased by $11 million compared to 2017 due to the Restructuring Bonds issued in November 2017, which were outstanding for the full year in 2018.

2017 Compared to 2016

Revenues increased by $19 million compared to 2016 due primarily to the two additional Financing Orders issued in 2016.

Operating expenses increased by $13 million compared to 2016 due primarily to the higher amortization of Restructuring Property, which is amortized annually based on its total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits increased by $12 million compared to 2016 due to the issuance of the 2016A Restructuring Bonds issued in May 2016 and the 2016B Restructuring Bonds issued in September 2016, which were outstanding for the full year in 2017.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $125 million, $109 million and $89 million as of December 31, 2018, 2017 and 2016, respectively. The higher balance in 2018 compared to 2017 is due to the increased debt service requirements in 2018.

Bond Ratings

Below are the UDSA's securities as rated by Moody's Investors Service (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch):

	Moody's	S&P	Fitch
UDSA Restructuring Bonds Series 2013	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2015	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2016A	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2016B	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2017	Aaa (sf)	AAA (sf)	AAA (sf)

Contacting the Utility Debt Securitization Authority

This financial report is designed to provide the UDSA's bondholders, and other interested parties, with a general overview of the UDSA's finances and to demonstrate its accountability for the funds it receives. For more information, contact the Utility Debt Securitization Authority, in care of the Long Island Power Authority, at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the UDSA's website at www.lipower.org/UDSA.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Net Position

December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Assets			
Current assets:			
Restricted cash and cash equivalents	$	124,597	109,167
Accounts receivable (net of uncollectible accounts of $168 and $134, respectively)		49,018	52,971
Prepaid assets		222	222
Total current assets		173,837	162,360
Non-current assets:			
Restructuring property (net of accumulated amortization)		4,501,288	4,671,456
Regulatory asset-unamortized debt issuance costs		22,181	24,699
Total non-current assets		4,523,469	4,696,155
Total assets	$	4,697,306	4,858,515
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	130,761	122,803
Accrued interest		8,213	9,643
Accrued expenses		526	127
Total current liabilities		139,500	132,573
Non-current liabilities:			
Long-term debt		4,008,832	4,139,593
Unamortized premium of long-term debt		448,778	494,915
Total non-current liabilities		4,457,610	4,634,508
Net position-restricted		100,196	91,434
Total liabilities and net position	$	4,697,306	4,858,515

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Operating revenue	$	339,072	297,679
Operating expenses:			
Amortization of restructuring property		170,168	117,844
Provision for uncollectible accounts		2,722	1,345
Servicing, administrative and other fees		3,211	3,009
Total operating expenses		176,101	122,198
Operating income		162,971	175,481
Other income		2,952	989
		165,923	176,470
Interest charges:			
Interest expense		200,495	187,163
Other interest expense		285	246
Amortization of restructuring bond premium and issuance costs		(43,619)	(41,198)
Total interest charges		157,161	146,211
Change in net position		8,762	30,259
Net position, beginning of year		91,434	61,175
Net position, end of year	$	100,196	91,434

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Cash flows from operating activities:			
Operating revenues received	$	340,789	282,853
General and administrative expenditures		(3,298)	(6,004)
Net cash provided by operating activities		337,491	276,849
Cash flows from investing activities:			
Restructuring property		–	(429,873)
Earnings received		2,952	989
Net cash provided by (used in) investing activities		2,952	(428,884)
Cash flows from financing activities:			
Proceeds from issuance of restructuring bonds		–	440,242
Interest paid		(201,925)	(192,213)
Redemption of long-term debt		(122,803)	(72,598)
Bond issuance and bond administration costs		(285)	(2,801)
Net cash (used in) provided by financing activities		(325,013)	172,630
Net increase in restricted cash and cash equivalents		15,430	20,595
Restricted cash and cash equivalents, beginning of year		109,167	88,572
Restricted cash and cash equivalents, end of year	$	124,597	109,167

Reconciliation of operating income to net restricted cash provided by operating activities:

		2018	2017
Operating income	$	162,971	175,481
Adjustments to reconcile operating income to net restricted cash provided by operating activities:			
Amortization of restructuring property		170,168	117,844
Changes in operating assets and liabilities:			
Prepaid assets and accrued expenses		399	(2,941)
Accounts receivable		3,953	(13,535)
Net restricted cash provided by operating activities	$	337,491	276,849

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The Utility Debt Securitization Authority (UDSA) is a special purpose corporate municipal instrumentality, a body corporate and politic, a political subdivision and public benefit corporation of the State of New York, created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the "Securitization Law").

The Securitization Law provided the legislative foundation for the issuance of restructuring bonds (Restructuring Bonds) by the UDSA. The issuance of Restructuring Bonds allowed the Long Island Power Authority (Authority) to retire a portion of its outstanding indebtedness and provide savings to the Authority's utility customers on a net present value basis. The Authority is the owner of the electric transmission and distribution system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area).

(b) Financial Reporting Entity

The Securitization Law prohibits the UDSA from engaging in any activity except as specifically authorized by a financing order and provides that the UDSA is not authorized to be a debtor under Chapter 9 or any other provision of the Bankruptcy Code.

The financial statements of the UDSA have been prepared in conformity with accounting principles generally accepted in the United States of America applied to government units (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The operations of the UDSA are presented as a proprietary fund following the accrual basis of accounting in order to recognize the flow of economic resources. Revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred. The basic financial statements cover the years ended December 31, 2018 and 2017.

Under GASB Statement No. 61, *The Financial Reporting Entity*, the UDSA is considered a blended component unit of the Authority. The assets, liabilities and results of operations are consolidated with the operations of the Authority for financial reporting purposes in the Long Island Power Authority Financial Statements.

(c) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Accounting for the Effects of Rate Regulation

The UDSA is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 addresses accounting rules for regulated operations. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires that debt issuance costs be expensed in the current financial period. As the UDSA charge provides recovery for debt issuance costs on a systematic basis over the life of the debt, the UDSA has classified these costs as a regulatory asset, in accordance with GASB Statement No. 62, to be collected over the life of the debt issuance to which they relate.

(e) Accounts Receivable

The UDSA receivables include amounts due from the customers served by the Authority and the accrual of unbilled revenue to be received in the subsequent year. The Authority accrues unbilled revenues by estimating unbilled consumption at the utility customer meter. Unbilled revenue for the UDSA totaled $19 million and $20 million as of December 31, 2018 and 2017, respectively.

Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible accounts.

(f) Restructuring Property

The Financing Orders, as adopted by the Authority's Board, authorized the creation of Restructuring Property and the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from the Authority. The Authority was authorized to use the proceeds from the sale of Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt. Restructuring Property is defined as the right, title and interest: (a) in and to rates and charges to recover from utility customers the debt service requirements on the Restructuring Bonds (referred to as Restructuring Charges); (b) in and to all revenues, collections, claims, payments, money or proceeds of, or arising from, the Restructuring Charges, regardless of whether such revenues, collections, claims, payments, money or proceeds are imposed, billed, received, collected or maintained together with, or commingled with, other revenues, collections, claims, payments, money or proceeds; and (c) in and to all rights to obtain adjustments to the Restructuring Charges. These non-by-passable consumption-based Restructuring Charges are billed to all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees. Restructuring Charges are established on behalf of the UDSA and are not subject to oversight by the Public Service Commission, the Department of Public Service or any other regulatory body, including the Authority's Board. The Authority has lowered its electric rates to reflect the savings from the securitization and modified its rate structure to create restructuring offset charges, which are amounts equal to and opposite the Restructuring Charges, so that utility customer bills are less than they would have been absent the sale of Restructuring Bonds. The securitization offset charges will be adjusted along with changes to the Restructuring Charges, subject to true-up adjustments as discussed in note 4.

The Restructuring Property is amortized annually based on principal payments due on the Restructuring Bonds. Also, included in the annual amortization is an amount equal to the bond premium amortization, which is recorded using the effective interest rate method.

(amounts in thousands, unless otherwise stated)

Below is a summary of the Financing Orders and the original issuance amounts:

Financing Order	Date Issued		Initial Amount Issued	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	$	2,022,324	March 1, 2014
Financing Order No. 2	October 27, 2015		1,002,115	January 1, 2016
Financing Order No. 3	April 7, 2016		636,770	April 7, 2016
Financing Order No. 4	September 8, 2016		469,320	September 8, 2016
Financing Order No. 5	November 21, 2017		369,465	January 1, 2018
		$	4,499,994	

(g) Revenues

The UDSA records revenue for Restructuring Charges under the accrual method of accounting in an amount equal to the imposed charges.

(h) Income Taxes

The UDSA is a political subdivision of the State of New York (State) and, therefore, is exempt from federal, state and local income taxes.

(i) Recent Accounting Pronouncements

GASB Statement No. 88**,** *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default and termination events, with finance-related consequences and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

UDSA is currently evaluating the impact of this statement on the accompanying financial statements and does not expect a material impact upon adoption.

(2) Restricted Cash and Cash equivalents

Restricted cash and cash equivalents consist of funds held in the UDSA's restricted bank accounts to pay the principal, interest and other expenses associated with the Restructuring Bonds. The UDSA has specific investment guidelines to address the legal and contractual requirement such that investment maturities are managed to meet the restructuring bonds debt service obligations.

The Bond Trustee (Trustee), under the indenture for each series of Restructuring Bonds, must maintain a segregated trust account for each series of Restructuring Bonds known as the Collection Account. The Collection Account for the bonds consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, Reserve Subaccounts (described below) and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts have been established by the Trustee as separate accounts, which will be recognized collectively as the Collection Account.

(amounts in thousands, unless otherwise stated)

The Trustee shall have sole dominion and exclusive control over all money in each Collection Account and shall apply such money as provided in the Indenture. Each account shall remain at all times with a securities intermediary. Only the Trustee shall have access to each Collection Account for the purpose of making deposits to and withdrawals from such account. Funds in each Collection Account shall not be commingled with any other monies.

Reserve Subaccounts

The Reserve Subaccount related to the Series 2013 Restructuring Bonds was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued.

The Reserve Subaccounts related to the Series 2015, 2016A, 2016B and 2017 Restructuring Bonds were each established with two subaccounts - the Operating Reserve Subaccount and the Debt Service Reserve Subaccount. Each Operating Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the respective Restructuring Bonds. The Debt Service Reserve Subaccounts were each established at a reserve level of 1.50% of the aggregate principal amount of the respective Restructuring Bonds then outstanding less the minimum principal amount due on any subsequent scheduled payment date.

Below is a summary of the Reserve Subaccounts as of December 31:

Reserve Subaccounts	2018	2017
Restructuring Bonds Series 2013	$ 10,247	10,217
Restructuring Bonds Series 2015	20,311	20,222
Restructuring Bonds Series 2016A	12,906	12,843
Restructuring Bonds Series 2016B	7,454	9,458
Restructuring Bonds Series 2017	7,487	7,389
	$ 58,405	60,129

Risks

Credit Risk: The UDSA's permissible investments include: (i) demand deposits and certificates of deposit; (ii) direct obligations of, or obligations guaranteed by, the United States of America; (iii) commercial paper having a rating of not less than A-1, P-1, F1 at the time of the commitment; (iv) money market funds which have the highest rating available; (v) repurchase obligations that are a direct obligation of, or obligation guaranteed by, the United States of America; and (vi) repurchase obligations meeting the minimum ratings criteria set forth in the investment guidelines.

Concentration of Credit Risk: The UDSA's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer except as follows: (i) U.S. Treasury Obligations; (ii) demand deposits, time deposits, or certificates of deposit and bankers' acceptance of eligible institution (as defined in investment guidelines); (iii) repurchase obligations with respect to any security that is a direct obligation of, or obligations guaranteed by, the United States of America; (iv) repurchase obligations with an eligible institution; and (v) money market funds which have the highest rating available. To the extent that more than 35% of the UDSA's total invested funds are invested with any single eligible institution, other than the Bond Trustee, the UDSA

(amounts in thousands, unless otherwise stated)

Board shall be notified. The UDSA deposits invested in money-market mutual funds are invested in U.S. government obligations.

Custodial Credit Risk: The UDSA believes that custodial credit risk is minimal, as it is the UDSA's policy and practice, as stipulated in its investment guidelines, that its investments be held by only eligible institutions with investment grade credit ratings.

Interest Rate Risk: The UDSA's investment guidelines state that investments must mature on or before the business day preceding the debt service payment dates of the restructuring bonds and all investments, therefore, are generally maturities of a short nature. As such, the UDSA presently holds its funds in money-market mutual funds as cash equivalents.

Below is a summary of the UDSA's restricted cash and cash equivalents as of December 31, 2018 and 2017:

Deposit/investment type		2018 Fair value	Percent of portfolio	2017 Fair value	Percent of portfolio
Money-market mutual fund	$	124,597	100%	101,607	93%
Cash		—	—	7,560	7%
Total	$	124,597	100%	109,167	100%

(3) Long-Term Debt

The Financing Orders adopted by the Authority's Board authorize the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from the Authority.

The Restructuring Bonds are consolidated on the Authority's financial statements; however, they are not direct obligations of the Authority. The Restructuring Bonds are also not a debt, and do not constitute a pledge of the faith and credit or taxing power, of the State or of any county, municipality, or any other political subdivision, agency, or instrumentality of the State other than the UDSA.

Each Restructuring Property (2013, 2015, 2016A, 2016B, and 2017) secures only their respective Restructuring Bonds. In each restructuring transaction, the Authority used the net proceeds from the sale of the Restructuring Property to retire debt and other obligations of the Authority, producing net present value savings to the Authority's utility customers.

Interest payments on all the Restructuring Bonds are paid semi-annually every June 15th and December 15th. Restructuring Charges are set to collect amounts sufficient to pay principal of, and interest on, the bonds on a timely basis and any ongoing financing costs.

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)
Notes to Basic Financial Statements
December 31, 2018 and 2017
(amounts in thousands, unless otherwise stated)

The UDSA's long-term debt as of December 31, 2018 consisted of the following:

	Beginning balance	Additions	Maturities	Ending balance	Years of Maturity	Interest Rate
						(%)
Restructuring bonds:						
Series 2013T	$ 469,786	—	46,433	423,353	2019-2023	2.04-3.44
Series 2013TE	1,374,390	—	—	1,374,390	2023-2039	5.00
Series 2015	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A	636,770	—	—	636,770	2023-2033	5.00
Series 2016B	409,870	—	76,370	333,500	2020-2033	4.00-5.00
Series 2017	369,465	—	—	369,465	2020-2039	5.00
Subtotal	4,262,396	—	122,803	4,139,593		
Less: current maturities	(122,803)			(130,761)		
Total long-term debt	$ 4,139,593			4,008,832		

The UDSA's long-term debt as of December 31, 2017 consisted of the following:

	Beginning balance	Additions	Maturities	Ending balance	Years of Maturity	Interest Rate
						(%)
Restructuring bonds:						
Series 2013T	$ 482,934	—	13,148	469,786	2018-2023	2.04-3.44
Series 2013TE	1,374,390	—	—	1,374,390	2023-2039	5.00
Series 2015	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A	636,770	—	—	636,770	2023-2033	5.00
Series 2016B	469,320	—	59,450	409,870	2018-2033	4.00-5.00
Series 2017	—	369,465	—	369,465	2020-2039	5.00
Subtotal	3,965,529	369,465	72,598	4,262,396		
Less: current maturities	(72,598)			(122,803)		
Total long-term debt	$ 3,892,931			4,139,593		

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(amounts in thousands, unless otherwise stated)

The debt service requirements for the UDSA's bonds as of December 31, 2018 are as follows:

Due		Principal	Interest	Annual Debt Service Requirements
2019		130,761	196,379	327,140
2020		126,057	192,973	319,030
2021		179,419	187,969	367,388
2022		177,511	180,037	357,548
2023		231,660	171,270	402,930
2024–2028		1,017,230	703,125	1,720,355
2029–2033		1,235,305	430,963	1,666,268
2034–2038		797,380	173,590	970,970
2039		244,270	9,322	253,592
Total	$	4,139,593	2,245,628	6,385,221

(4) Significant Agreements and Related-Party Transactions

The Authority acts as the initial Servicer of the applicable Restructuring Property pursuant to the terms of a Servicing Agreement with the UDSA executed in connection with each issuance of Restructuring Bonds. Under the Servicing Agreement, the Authority, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the Restructuring Charges on the UDSA's behalf. However, pursuant to the Authority's Amended and Restated Operation Services Agreement, PSEG Long Island, among other things, performs the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement. The Authority is responsible for taking all necessary action in connection with true-up adjustments (described below) and certain reporting requirements.

The Restructuring Charges will be adjusted at least annually (true-up adjustment) and, if determined by the Servicer during the mid-year review process to be necessary, semi-annually or more frequently, to ensure that the expected collections of the Restructuring Charges are adequate to timely pay all scheduled payments of principal and interest on the Restructuring Bonds and all other ongoing financing costs when due.

During 2018, the UDSA reset its Restructuring Charge on all its Restructuring Bonds semi-annually. During 2017, all Restructuring Charges were reset semi-annually except for Series 2017 Restructuring Bonds, which were issued in November 2017. The Series 2017 Restructuring Charge was set with an effective date of January 1, 2018.

Under the Financing Orders, the Authority withholds from the Restructuring Charge collections an annual servicing fee equal to 0.05% of the initial principal amount of the Restructuring Bonds originally issued.

(5) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated subsequent events from January 1, 2019 through March 18, 2019, which was the date the financial statements were available for issuance and concluded that no additional disclosures or adjustments to the financial statements were necessary.

Independent Auditors' 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*

The Board of Trustees
Utility Debt Securitization Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Utility Debt Securitization Authority (UDSA), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements as of and for the year ended December 31, 2018, we considered the UDSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the UDSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the UDSA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such, that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the UDSA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the UDSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

(signed) KPMG LLP

New York, NY
March 18, 2019

Utility Debt Securitization Authority

Audit Results

Basic Financial Statements for the year ended December 31, 2018

March 18, 2019

Introduction

To the Finance and Audit Committee of the Utility Debt Securitization Authority

We are pleased to have the opportunity to meet with you on March 18, 2019 to discuss the results of our audit of the basic financial statements of the Utility Debt Securitization Authority (UDSA) as of and for the year ended December 31, 2018. Our audit was conducted in accordance with the terms established in the audit engagement letter dated October 29, 2018.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our audit plan, presented on December 12, 2018. We will be pleased to elaborate on the matters covered in this document when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

We expect to be in a position to sign our audit opinion on the Utility Debt Securitization Authority's financial statements and our report on internal control and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards on March 18, 2019.

We expect to issue an unqualified Auditor's Report.

Content

Our audit findings

Audit matters

Page 3

Audit risk	Risk change	
Management override of controls	Consistent	Page 9

Uncorrected audit misstatements

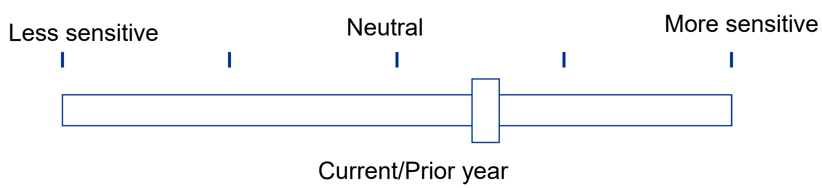
Understatement/(overstatement)	$m	%
Revenues	–	–
Operating Expenses	–	–
Total assets	–	–
Net Position	–	–

Outstanding matters

- Management representation letter
- Finalize audit report and sign opinion

Accounting judgments related to estimates

Page 3



The engagement team determined there to be no assumptions that were subject to a high degree of subjectivity. After performing procedures over the accounting judgments, the engagement team noted no indicators of management bias and did not identify any disconfirming evidence. There were no changes from the prior year.

Control deficiencies

Material weaknesses	0

Audit results, required communication and other matters summary

Communication topic	Response
Scope of audit	Our audit of the basic financial statements of the Utility Debt Securitization Authority (UDSA) as of December 31, 2018, and for each of the years in the two-year period ended December 31, 2018, was performed in accordance with the standards of U.S. generally accepted auditing standards (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.
Changes to our planned risk assessment and planned audit strategy	There were no changes to our audit plan which was presented to you on December 12, 2018.
Auditors' report	We expect to issue an unqualified audit opinion on the financial statements. Refer to appendix for a draft of our auditors' report and report on internal control and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
Outstanding matters	Outstanding matters as of March 18, 2019 are as follows: – Management representation letter – Finalize audit report and sign opinion
Significant accounting policies and practices	Significant accounting policies and practices are discussed within footnote 1 in the UDSA's basic financial statements. – We have reviewed the accounting policies utilized by management in preparation of the financial statements and found such policies to be appropriate. - The Financial Reporting Entity – GASB 61 - Accounting For Effects of Rate Regulation – GASB 62 - Items Previously Reported as Assets and Liabilities – GASB 65
Critical Accounting Estimates	The engagement team did not identify any critical accounting estimates.

Audit results, required communication and other matters summary (continued)

Communication topic	Response
Significant risks and other significant audit matters	Significant risks and other significant audit matters relate to: • Fraud risk related to management override of controls
Financial statement presentation	We have no matters to report on the financial statement presentation.
New accounting pronouncements	No new significant accounting pronouncements were adopted by the UDSA during the current year. The UDSA is currently evaluating the impact of the GASB Statement No.88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which requires additional essential information related to debt to be disclosed in the notes to the financial statements. The requirements of this pronouncement are effective for reporting periods beginning after June 15, 2018. Management does not expect a material impact upon adoption.
Significant Unusual Transactions	There were no significant unusual transactions identified during our audit.
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.
Financial presentation and disclosure omissions	No matters to report.

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Audit results, required communication and other matters summary (continued)

Communication topic	Response
Control deficiencies	No matters to report.
Related parties	We performed an evaluation of the UDSA's identification of, accounting for, and disclosure of its relationships and transactions with related parties. As a result of such procedures, we have no matters to report.
Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. As a result of our consideration of the other information, no material inconsistences or material misstatements of facts were identified related to other information.

Audit results, required communication and other matters summary (continued)

Type		Response
Related parties	OK	All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements at December 31, 2018, including securitization-related disclosures.
Illegal acts or fraud	OK	No Matters to report.
Noncompliance with laws and regulations	OK	No Matters to report.
Modifications to auditor's report	OK	None
Group audit considerations	OK	N/A
Subsequent events	OK	None noted.
External confirmations (if relevant)	OK	No Matters to report

Type		Response
Other information	OK	None noted.
Significant difficulties encountered during the audit	OK	No matters to report.
Disagreements with management or scope limitations	OK	No matters to report.
Management's consultation with other accountants	OK	No matters to report.
Significant issues discussed, or subject to correspondence with, management	OK	No matters to report.
Difficult or contentious matters for which the auditors consulted	OK	No matters to report.
Material Written Communications between KPMG and Management	OK	Engagement letter & Management representation letter
Other matters (if relevant)	OK	None noted.

Significant risks

1 Management override of controls

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 appear to be operating effectively.

Significant Risk	Our audit response and findings
Management override of controls	***Internal Controls*** - Assessed management’s design and implementation of controls and the operating effectiveness of those controls over journal entries and post-closing adjustments ***Substantive Procedures*** - Examined journal entries and other adjustments - Reviewed accounting estimates for bias - Evaluated the business purpose for any significant unusual transactions that may have occurred throughout the year - The engagement team considered the risk of management override of controls related to revenue and noted that the UDSA has a very simple revenue process and that revenue recognition is straight forward. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue. ***Our Findings*** - The engagement team determined that internal controls over management override are operating effectively as of December 31, 2018. - The engagement team did not identify instances of fraud as a result of our substantive procedures.

Significant accounting policies and practices

Significant accounting policies and practices	Results of evaluation and conclusions about the qualitative aspects
Revenue recognition	— Detailed testing of customer bills and restructuring charge included on customer bills throughout the year — Recalculated billed revenue throughout the year — Tested 100% of the revenue recorded to cash receipts — Recalculated the revenue allocations from LIPA to UDSA based on LIPA's billed energy usage multiplied by UDSA's securitization charge — Assessed internal controls to ascertain the design and implementation of controls in the Revenue process
Long term debt	— Confirmed outstanding long term debt obligations with third parties — Tested debt classified as due within one year — Recalculated interest expense throughout the year — Recalculated the current year amortization of bond premiums and issuance costs — Tested the bond principle maturity payments to ensure completeness and accuracy
Restructuring property	— Tested the composition summary of the Restructuring Property and verified that the amortization was appropriate as of December 31, 2018 — Tested the appropriateness of the presentation on the Statements of Net Position (Noncurrent Assets)
Unbilled Revenue	— Account balance deemed to be immaterial to the financial statements as of 12/31/18 ($19M); passed on further audit testwork

Appendix

Independent Auditors' Report

The Board of Trustees
Utility Debt Securitization Authority:

We have audited the accompanying basic financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority and the State of New York, which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion on the Financial Statements

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the UDSA as of December 31, 2018 and 2017, and the changes in their net position and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019 on our consideration of the UDSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UDSA's internal control over financial reporting and compliance.

(signed) KPMG LLP

New York, New York
March 18, 2019

Independent Auditors' 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*

The Board of Trustees
Utility Debt Securitization Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Utility Debt Securitization Authority (UDSA), which comprise the statements of net position as of December 31, 2018 and 2017 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements as of and for the year ended December 31, 2018, we considered UDSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of UDSA's internal control. Accordingly, we do not express an opinion on the effectiveness of UDSA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UDSA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the UDSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

(signed) KPMG LLP

New York, New York
March 18, 2019

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Questions?

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

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