



Utility Debt Securitization Authority Audit results

**Basic financial statements for the year ended
December 31, 2019**

March 23, 2020

Introduction

To the Board of Trustees of the Utility Debt Securitization Authority

We are pleased to have the opportunity to meet with you on March 23, 2020 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, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated November 1, 2019.

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 November 13, 2019. There have been no significant changes to our audit plan and strategy.

Our audit is substantially complete. Subject to the Board of Trustees' approval, we expect to be in a position to issue our reports on connection with UDSA's basic financial statements on March 23, 2020.

We expect to issue an unmodified auditors' report.

Content

Audit results required communications and other matters summary	2
Significant risks and other significant audit matters	8

Audit results required communications 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 and for the years ended December 31, 2019 and 2018, was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller of the United States.
Other deliverables	Other planned audit deliverables include: <ul style="list-style-type: none"> - Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Accounting Standards - Report on Investment Compliance - Restructuring Property Servicing Agreements Agreed Upon Procedures Reports <ul style="list-style-type: none"> Series 2013 Bonds Series 2015 Bonds Series 2016A Bonds Series 2016B Bonds Series 2017 Bonds
Outstanding matters	Outstanding matters as of March 23, 2020: <ul style="list-style-type: none"> - Signed management representation letter - Finalize audit and other reports
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Financial presentation and disclosure omissions	No matters to report.
Control deficiencies	No significant deficiencies or material weaknesses were identified.
Auditors' report	We expect to issue an unmodified opinion on the basic financial statements of the Utility Debt Securitization Authority. No other findings or matters were identified in connection with other reports to be issued.
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on November 13, 2019.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant accounting policies	<p>Significant accounting policies and practices are discussed within note 1 of the Utility Debt Securitization Authority's basic financial statements.</p> <ul style="list-style-type: none"> - We have reviewed the accounting policies utilized by management in preparation of the basic financial statements and found such policies to be appropriate.
Newly effective accounting standards	<p>The following new accounting pronouncements were adopted by UDSA during the current year:</p> <ul style="list-style-type: none"> - GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements <p>The adoption of GASB 88 had no impact on the face of the financial statements; however, it enhanced certain disclosures regarding events of default.</p>
Significant accounting estimates	<p>No matters to report.</p>
Significant financial statement disclosures	<p>No matters to report.</p>
Significant risks and other significant audit matters	<p>Significant risks and other significant audit matters relate to:</p> <ul style="list-style-type: none"> - Fraud risk related to management override of controls <ul style="list-style-type: none"> - This risk is present in all entities <p>Refer to slides 8-9 for further detail and our response.</p>

Audit results required communications and other matters summary (continued)

Communication topic	Response
<p>Related parties</p>	<p>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.</p>
<p>Other information in documents containing audited financial statements</p>	<p>Our responsibility with respect to information in a document that contains the audited financial statements does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements.</p> <p>We are currently not aware of any other documents that contain the audited financial statements of UDSA, including our opinion.</p>

Audit results required communications and other matters summary (continued)

Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the basic financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Going concern	No matters to report.
Non-GAAP	No significant matters to report.
Subsequent events	No matters to report.
Other findings or issues	No matters to report.

Communication topic	Response
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Material written communications	Engagement letter, management representation letter

Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the basic financial statements.
- Our audit included consideration of internal control over financial reporting 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 internal control.
- We are not expressing an opinion on the effectiveness of internal control.
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

No significant deficiencies or material weaknesses were identified during our audit.

Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
<p>Management override of controls</p>	<p>Internal controls</p> <ul style="list-style-type: none"> - Assessed management’s design and implementation of controls and the operating effectiveness of those controls over journal entries (during the year and at the end of the reporting period), as well as post-closing adjustments <p>Substantive procedures</p> <ul style="list-style-type: none"> - Examined journal entries and other adjustments - Reviewed accounting estimates for bias - Evaluated the business purpose for any significant unusual transactions that may have occurred throughout the year - The engagement team considered the risk of management override of controls related to revenue and noted that the UDSA revenue process is routine and not complex. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue <p>Our findings</p> <ul style="list-style-type: none"> - The engagement team determined that there are no matters to report related to the internal controls over management override as of December 31, 2019. - The engagement team did not identify instances of fraud as a result of our substantive procedures.

Significant audit areas and our audit response

Significant audit areas	Our audit response and findings
Revenue recognition	<p>Substantive procedures</p> <ul style="list-style-type: none"> - 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 allocated from LIPA to UDSA based on LIPA's billed energy usage multiplied by UDSA's securitization charge
Long term debt	<p>Substantive procedures</p> <ul style="list-style-type: none"> - 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 principal maturity payments to ensure completeness and accuracy
Restructuring property	<p>Substantive procedures</p> <ul style="list-style-type: none"> - Tested the composition summary of the Restructuring Property and verified that the amortization was appropriate as of December 31, 2019 - Tested the appropriateness of the presentation on the Statements of Net Position (Noncurrent Assets)



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.

This presentation to the Board of Trustees is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. NDPPS 832168

The KPMG name and logo are registered trademarks or trademarks of KPMG International.