



Utility Debt Securitization Authority Discussion with Audit Committee

Audit results for the year ending December 31, 2020

With you today:

Edward Lee. Lead Audit Partner

John Pontecorvo: Lead Audit Sr. Manager

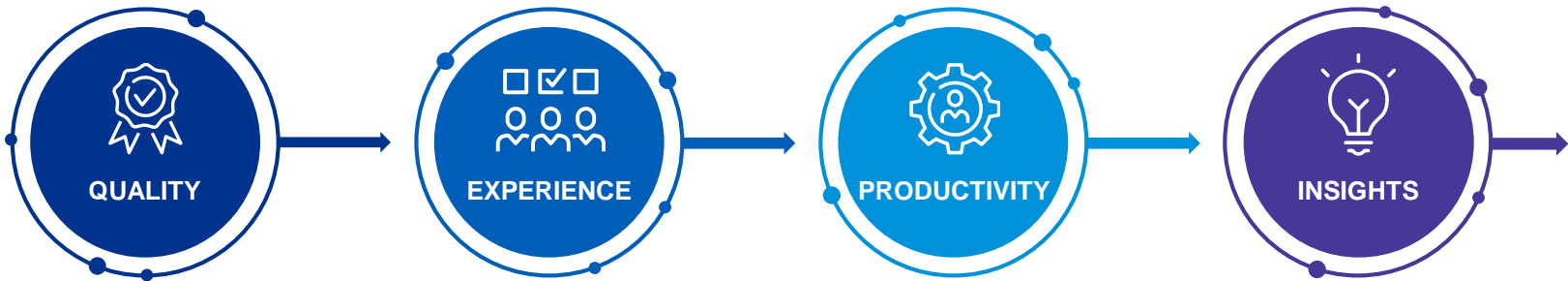
March 26, 2021





Our commitment to you

We aim to deliver an exceptional client experience by focusing on



Quality in all that we do and how we deliver

We are committed to delivering a thoughtful, transparent and coordinated approach

Risk based auditing by enabling our people through the design, execution, and automation of our processes

Having best-in-class industry and topical insights, which help our auditors make better decisions and share those relevant insights



Required Audit Committee Communications



Summary: Audit results required communications and other matters

	Response
Outstanding matters	Outstanding matters as of March 26, 2021: — Signed Management Representation Letter — Finalized Audit and other reports
Significant unusual transactions	No matters to report
Uncorrected audit misstatements	No matters to report
Corrected audit misstatements	No matters to report
AUP finding	In connection with the Debt AUP letters, we noted that certain certifications were signed and dated the date of payment, rather than one business day before.
Financial presentation and disclosure omissions	No matters to report
Non-GAAP policies and practices	No significant matters to report
Material weaknesses and significant deficiencies in internal control	No significant deficiencies or material weaknesses were identified.
Auditors' report	We expect to issue an unmodified opinion on the basic financial statements of the USDA. No other findings or matters were identified in connection with other reports to be issued.
Changes to our 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 16, 2020.
Significant accounting policies and practices	Significant accounting policies and practices are discussed within note 1 of the USDA's basic financial statements. We have reviewed the accounting policies utilized by management in preparation of the basic financial statements and found such policies to be appropriate.
Significant accounting estimates	No matters to report
Significant financial statement disclosures	No matters to report
Related Parties	We performed an evaluation of the USDA's identification of, accounting for, and disclosure of its relationships and transactions with related parties. As a result of such procedures, we have no matters to report
Going concern	No matters to report



Summary: Audit results required communications and other matters (continued)

		Response
Audit results	Other information	<p>Our responsibility with respect to information in a document that contains the audited basic 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 USDA, including our opinion.</p>
	Subsequent events	No matters to report
	In-house legal	No matters to report
	Illegal acts or fraud	No matters to report
	Noncompliance with laws and regulations	No matters to report
	Significant difficulties encountered during the audit	No matters to report
	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report
	Management's consultation with other accountants	No matters to report
	Difficult or contentious matters for which the auditor consulted	No matters to report
	Disagreements with management	No matters to report
	Other significant matters	<p>Significant risks and other significant audit matters relate to:</p> <p>Fraud risk related to management override of controls</p> <p>This risk is present in all entities</p> <p>Refer to slides 6-7 for further detail and our response.</p>
	Written communications	Engagement letter and management representation letter
	Independence	See slide 8
	Inquiries	See slide 9



Significant risks and other significant audit matters

Significant Risks	Procedures performed	Results
<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, 2020. — The engagement team did not identify instances of fraud as a result of our substantive procedures.



Significant audit areas and our audit response

Significant Risks	Procedures performed
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, 2020 — Tested the appropriateness of the presentation on the Statements of Net Position (Noncurrent Assets)
Investments	<p>Substantive procedures</p> <ul style="list-style-type: none"> — Tested management's assertion that they complied with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulation of the State of New York (NYCRR). — Confirmed investments held as of 12/31/2020 — Tested the fair market value of investments by independently pricing each security



Independence required communications

Our professional standards and other regulatory requirements specify that we to communicate to you in writing, at least annually, all relationships between our firm, or any affiliates of the firm, and UDSA and persons in a financial reporting oversight role at UDSA, which may reasonably be thought to bear on independence. In addition to the professional services disclosed in the previous slide, we are not aware of any relationships between our firm and UDSA and persons in a financial reporting oversight role at UDSA.



Inquiries

The following inquiries are in accordance with AU-C 260

Is the audit committee aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the audit committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting UDSA?

Appendix

- Audit Quality and Transparency
- KPMG thought leadership



Audit quality and transparency

2020 Audit quality report

- Highlights the steps we have taken in 2020 to evolve and enhance our audit practice and our firm
- Provides an overview of how we are strengthening our culture, continuing to invest in our people, and the new technologies that will enable our workforce



2020 Transparency report

- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards



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



KPMG thought leadership resources

KPMG Institute Network <https://portal.us.kworld.kpmg.com/scripts/index.aspx/md/institutes/pages/home>

KPMG's Institute Network brings together thought leadership, insights, and knowledge about the issues and topics that matter most to our clients. So whether it's insight into industry trends or the interpretation of new regulatory requirements, the KPMG Institute Network is the place you can turn. It's also a destination that offers an open forum where clients can exchange information and share leading practices with their industry peers through audio and video Webcasts, share forums, roundtables, conferences, surveys, and more.

The KPMG Institutes include: Advisory Institute, Audit Committee Institute, Financial Reporting View, Global Energy Institute, Private Enterprise Institute, Government Institute, Healthcare and Life Sciences Institute, IFRS Institute, Shared Services and Outsourcing Institute, Tax, US Manufacturing.

Board Leadership Center <https://boardleadership.kpmg.us/>

Engaging with directors and business leaders. Articulating boardroom challenges. Delivering practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting, and more—all through a board lens.

Audit Committee Institute <https://boardleadership.kpmg.us/audit-committee.html>

As part of the KPMG Board Leadership Center, the Audit Committee Institute (ACI) provides audit committee and board members with practical insights, resources, and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today—from risk management and emerging technologies to strategy, talent, and global compliance.

Government Institute <https://institutes.kpmg.us/government.html>

The Government Institute has been established to help federal, state, and local governments, and higher education and not-for-profit organizations meet their mandates to achieve unprecedented standards of transparency and accountability.

COVID-19: Reaction, Resilience, Recovery, New Reality <https://www.kpmg.us/insights/2020/covid-19-resilience-readiness.html>

KPMG has created a COVID-19 landing page to share the latest insight into the unprecedented challenges of the rapidly changing landscape to establish clarity, emerge with strength, and inspire the future of business. This website includes links to our latest COVID-19 thought leadership and webcasts, and includes industry sector specific content, such as Asset Management, Consumer & Retail, Energy, and Insurance to name a few.

Questions?

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

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