



# Utility Debt Securitization Authority Discussion with the Board of Trustees

**Audit results for the year ending 12/31/2021**

**With you today:**

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March 28, 2022



# Our commitment to you

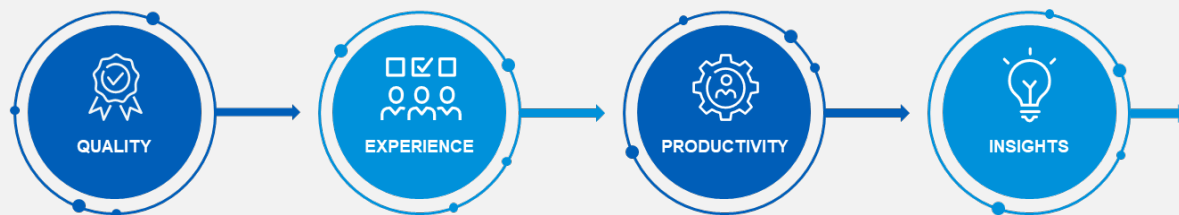


## Delivering a better audit experience drives us.

With KPMG you can expect an experience that's better for your team, organizations and the capital markets. An experience that's built for a world that demands agility and integrity.

See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

## We aim to deliver an exceptional client experience for UDSA by focusing on:



# Coordinating audits during COVID-19

## Successful remote work execution

Consistent with our previous communications outlined in our planning presentation, there have been no substantial changes to our initial COVID-19 audit plan response.

## Business continuity update

- Each KPMG and MWBE employee is equipped with the tools necessary to deliver our audit services remotely
- There have been no significant technology or service delivery interruptions to the UDSA audit as a result of the remote work environment
- Management continues to provide information to support audit procedures electronically, which is consistent with pre-COVID-19 practices
- We have routine virtual check ins and meetings with management throughout the year to discuss key matters
- We conduct frequent virtual meetings with KPMG staff and managers to ensure appropriate supervision and review
- Process walkthroughs were performed virtually

# Digitizing our audit platform



## Accelerating our innovation

Over the past year, we have deployed multiple new audit technologies within the KPMG Clara ecosystem to enhance your audit experience.

Built on an agile, integrated, and secure platform, KPMG Clara combines a client-facing portal, data extraction, a comprehensive suite of tools to evaluate and respond to risk, and a workflow to guide our teams through it all. These capabilities help us deliver with quality, efficiency, and insight, leading to an exceptional experience.

### Collaboration Platform

A next-generation audit facilitated by a digitized, efficient and transparent audit process.

### Our risk assessment approach:

Same high standards.  
More precision.  
Powerful technology.  
Tailored testing.

### The result:

More targeted and effective audit response.



### Data Extraction & Transformation

No matter your technology environment, we streamline data extraction and transformation to power the audit.

### Automation Throughout Our Response

End-to-end automation enabling a consistent and efficient response.

## Scope of audit and other deliverables

Scope of audit	<p>Our audit of the consolidated financial statements of the Utility Debt Securitization Authority (“UDSA”) as of and for the years ended December 31, 2021 and 2020, was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller of the United States.</p>
Other deliverables	<p>Other planned audit deliverables include:</p> <ul style="list-style-type: none"> <li>—Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i></li> <li>—Report on Investment Compliance</li> <li>—Reports on applying agreed upon procedures (5x)</li> </ul>



# Required audit committee communications



# Summary: Audit results required communications and other matters

	Response
Outstanding matters	Outstanding matters as of March 28th, 2022: <ul style="list-style-type: none"> <li>- Signed Management Representation Letter</li> <li>- In-House Legal Letter</li> </ul>
Significant unusual transactions	No significant unusual transactions identified during the audit.
Uncorrected audit misstatements	No uncorrected misstatements identified during the audit.
Corrected audit misstatements	No corrected misstatements identified during the audit.
Financial presentation and disclosure omissions	No matters to communicate.
Non-GAAP policies and practices	No matters to communicate.
Auditors' report	Form and wording of the opinion has been revised in accordance with Statement on Auditing Standards 134 (Refer to slide 9 for further details) We expect to issue an unmodified opinion on the basic financial statements of the UDSA.
Changes to our risk assessment and planned audit strategy	No matters to report.
Significant accounting policies and practices	Significant accounting policies and practices are discussed within Note 1 of the UDSA'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 audit areas and estimates	No significant estimates to report. Refer to slides 10-11 for summary of Significant Audit Areas.
Significant financial statement disclosures	No matters to report.
Group audit engagement considerations	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.
Going concern	No matters to report

# Summary: Audit results required communications and other matters

		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 UDSA, including our opinion.</p>
	Subsequent events	No matters to report.
	Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	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	<p>No matters to report in connection with the audit of the basic financial statements.</p> <p>However, in connection with our report on applying agreed-upon procedures relating to the Series 2016B Restructuring bonds, we noted that the August 2021 monthly certificate was not posted to the UDSA website at the time we performed our procedures. Management has acknowledged the omission and has subsequently posted the certificate.</p>
	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.
	Significant risks and other significant matters	<p>Significant risks and other significant audit matters relate to:</p> <p>Fraud risk related to management override of controls. Refer to slide 12 for further details and our response.</p>
Written communications	Engagement letter and management representation letter	
<b>Independence</b>	See slide 13	
<b>Inquiries</b>	See slide 14	



# Updated auditors' report presentation

## Basic elements of a US GAAS Auditors' Report comparison

### Revised auditors' report under SAS 134

- Title
- Addressee
- Auditors' opinion
- Basis of opinion
- Going concern (when applicable)
- Key audit matters (when applicable)
- Responsibilities of management for the financial statements
- Auditors' responsibilities for the audit of the financial statements
- Other information (when applicable)
- Other reporting responsibilities (when applicable)
- Signature of the auditor
- Auditors' address
- Date of the auditors' report

### Current report under reporting standards

- Title
- Addressee
- Introductory paragraph
- Management's responsibilities for the financial statements
- Auditors' responsibilities
- Auditors' opinion
- Other reporting responsibilities (when applicable)
- Signature of the auditor
- Auditors' address
- Date of the auditors' report

# Significant audit areas

Audit Areas	Procedures performed
Revenue recognition	<p><b>Substantive procedures</b></p> <ul style="list-style-type: none"> <li>— Detailed testing of customer bills and restructuring charge included on customer bills throughout the year</li> <li>— Recalculated billed revenue throughout the year</li> <li>— Tested 100% of the revenue recorded to cash receipts</li> <li>— Recalculated the revenue allocated from LIPA to UDSA based on LIPA's billed energy usage multiplied by UDSA's securitization charge</li> </ul> <p><b>Our findings</b></p> <p>The engagement team determined that there are no matters to report related to revenue recognition as of December 31, 2021.</p>
Long-term debt	<p><b>Substantive procedures</b></p> <ul style="list-style-type: none"> <li>— Confirmed outstanding long-term debt obligations with third-parties</li> <li>— Tested debt classified as due within one year</li> <li>— Recalculated interest expense throughout the year</li> <li>— Recalculated the current year amortization of bond premiums and issuance costs</li> <li>— Tested the bond principal maturity payments to ensure completeness and accuracy</li> </ul> <p><b>Our findings</b></p> <p>The engagement team determined that there are no matters to report related to long term debt as of December 31, 2021.</p>

# Significant audit areas

Audit Areas	Procedures performed
Restructuring property	<p><b>Substantive procedures</b></p> <ul style="list-style-type: none"> <li>— Tested the composition summary of the Restructuring Property and verified that the amortization was appropriate as of December 31, 2021</li> <li>— Tested the appropriateness of the presentation on the Statements of Net Position (Noncurrent Assets)</li> </ul> <p><b>Our findings</b></p> <p>The engagement team determined that there are no matters to report related to restructuring property as of December 31, 2021.</p>
Investments	<p><b>Substantive procedures</b></p> <ul style="list-style-type: none"> <li>— 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).</li> <li>— Confirmed investments held as of December 31, 2021.</li> <li>— Tested the fair market value of investments by independently pricing each security.</li> </ul> <p><b>Our findings</b></p> <p>The engagement team determined that there are no matters to report related to investments as of December 31, 2021.</p>

# Significant risks and other significant audit matters

Significant risks	Procedures performed	Results
<p>Management override of controls</p>	<p><b>Internal controls</b></p> <ul style="list-style-type: none"> <li>— 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</li> </ul> <p><b>Substantive procedures</b></p> <ul style="list-style-type: none"> <li>— Performed roll-forward procedures to test completeness of the journal entry population and tested a selection of journal entries to test relevant data elements for accuracy</li> <li>— Used eData routines to select journal entries for testing based on specific criteria. The design of the routines was discussed with KPMG Forensics Subject Matter Professionals</li> <li>— Reviewed accounting estimates for bias</li> <li>— The engagement team considered the risk of management override of controls related to revenue and noted that the LIPA revenue process is routine and not complex. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue</li> </ul>	<p><b>Our findings</b></p> <ul style="list-style-type: none"> <li>— The engagement team determined that there are no matters to report related to the internal controls over management override as of December 31, 2021.</li> <li>— The engagement team did not identify instances of fraud as a result of our substantive procedures.</li> </ul>

# Independence communications

Our professional standards and other regulatory requirements specify that we are required to communicate to you in writing, at least annually, all relationships between our firm, or any affiliates of the firm, and 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 slides, we are not aware of any relationships between our firm and UDSA and persons in a financial reporting oversight role at UDSA. In connection with our audit of the UDSA, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.

# Inquiries

## The following inquiries are in accordance with AU-C 260

### Are those charged with governance 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?

### Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting UDSA?
  - If so, have the instances been appropriately addressed and how have they been addressed?

### Additional inquiries:

- What are the audit committee's views about fraud risks?
- Who is the appropriate person in the audit committee for communication of audit matters during the audit?
- How are responsibilities allocated between management and the audit committee?
- What are UDSA's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are the audit committee's attitudes, awareness, and actions concerning (a) internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has UDSA entered into any significant unusual transactions?
- Whether UDSA is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?
- Have any subsequent events occurred that might affect the financial statements?



# Appendix

KPMG Thought Leadership and other materials



# 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.



# Transparency report

## 2021 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



In addition to this report, we are providing you with our Transparency Report Supplement: Assisting audit committees in meeting NYSE rules on auditor communications

Reports and supplements available at:  
[audit.kpmg.us/auditquality/transparency](https://audit.kpmg.us/auditquality/transparency)

# Diversity, equity, and inclusion

## Accelerate 2025: Driving meaningful change



**Chair and CEO  
Paul Knopp**

“Diversity, Equity and Inclusion are foundational to KPMG’s purpose, values and strategy. I have witnessed incredible change and significant progress throughout my 37-year career, but it has not been nearly enough—as a society, as a profession and as a firm.”



**Chief DEI Officer  
Elena Richards**

“We believe we have a responsibility to make KPMG a place where all of our people can grow and thrive, and are committed to that vision. Our vision.”

### Our 2025 Goals



- 50 percent of our Partners and Managing Directors from under-represented groups, including a doubling of Black representation
- 50 percent increase of Black and Hispanic/Latinx representation in our workforce
- Significant increase in representation from under-represented groups in client and firmwide leadership roles

Read our first U.S. Diversity, Equity & Inclusion Transparency Report: [read.kpmg.us/diversity](https://read.kpmg.us/diversity)

# ESG reporting considerations

## Our definition

ESG refers to strategic and operational environmental, social and governance risks and opportunities with the potential to have a material impact on a company's long-term financial sustainability and value creation.

## Why ESG



**Environmental** criteria consider how a company acts in its role as a steward of nature, such as energy use, recycling practices, pollution, and natural resource conservation.



**Social** criteria examine how well a company manages relationships with employees, suppliers, customers, and the community, including diversity and inclusion metrics.



**Governance** criteria are concerned with a company's leadership, internal controls, executive pay, audits, and shareholder rights. An example is ethnic diversity in the board of directors.








## Five questions for those charged with governance to consider:

1. Which ESG topics are you measuring and reporting, and why?
2. Where are you currently publishing your ESG reporting?
3. What processes and controls exist over the data being collected and reported?
4. Are you getting assurance on ESG metrics?
5. How are you thinking about value creation and your competitors when engaging on ESG?

Boards and executives increasingly see ESG topics as important to long-term value creation and the need to meet investor demand for ESG information in a way that drives value for the organization.

Source: [Audit committees and corporate ESG commitment: 'Prove it'](#), *Accounting Today*, Oct 15, 2020

# Rise of the ESG agenda

 <p><b>Access to capital</b></p> <p>Investors increasingly factor in ESG considerations when making investment decisions.</p>	 <p><b>Regulatory developments</b></p> <p>ESG-related compliance costs and disclosure requirements continue to evolve.</p>	 <p><b>Feb 2021:</b> SEC announced focus on climate-related disclosures.</p> <p><b>Mar-June 2021:</b> SEC public consultation on ESG (focus on climate).</p> <p><b>April 2021:</b> EU proposed expanded ESG reporting (with limited assurance) that would impact certain US companies.</p> <p><b>Early 2022:</b> SEC proposals expected.</p> <p><b>Get the latest news:</b>  <a href="#"><u>KPMG Financial Reporting View</u></a></p> <p><b>Possible implications of regulatory developments:</b></p> <ul style="list-style-type: none"> <li>— General pressure by investment community to conform to requirements for registrants.</li> <li>— Clarity over disclosure expectations and a level playing field.</li> <li>— Pressure from customers as they seek assurance on supply chain.</li> </ul>
 <p><b>Societal pressure</b></p> <p>Stakeholders increasingly scrutinize companies' ESG performance and transparency affecting project approval, brand acceptance and consumer demand.</p>	 <p><b>Enhanced risk management and investment returns</b></p> <p>Many institutional investors now consider ESG factors in their investment analysis.</p>	
 <p><b>Reporting standards</b></p> <p>Measurement and reporting of ESG-related information is maturing rapidly, as disclosure standards are making headway.</p>	 <p><b>Workforce of the future</b></p> <p>ESG has become a key factor in attracting and retaining top talent.</p>	

# Our values

We do what's right.	We never stop learning and improving.	We think and act boldly.	We respect each other and draw strength from our differences.	We do what matters.
<p style="text-align: center;"><b>Integrity</b></p> <ul style="list-style-type: none"> <li>— Has a moral compass that does not waver in any situation, big or small</li> <li>— Does what they say and takes accountability when they don't</li> <li>— Is honest and forthright, even when it's difficult</li> <li>— Is not a bystander; takes action in the moment to do what's right and speak up</li> <li>— Upholds the letter and spirit of our ethical and professional standards, even under pressure</li> </ul>	<p style="text-align: center;"><b>Excellence</b></p> <ul style="list-style-type: none"> <li>— Demonstrates a passion for quality</li> <li>— Pushes individuals and teams to reflect and evolve, learning from both success and failure</li> <li>— Shares knowledge patiently and generously</li> <li>— Advocates for and role models life-long personal, technical and professional growth</li> <li>— Invites feedback and constructive challenge, and promptly acts on it</li> </ul>	<p style="text-align: center;"><b>Courage</b></p> <ul style="list-style-type: none"> <li>— Thinks big, pursuing innovative ideas and solutions</li> <li>— Openly questions actions inconsistent with our values, even when it isn't popular</li> <li>— Engages in candid conversations, caring personally and challenging directly</li> <li>— Has a bias for action and makes tough decisions</li> <li>— Acknowledges mistakes and limitations; asks for help</li> </ul>	<p style="text-align: center;"><b>Together</b></p> <ul style="list-style-type: none"> <li>— Treats everyone with respect and dignity, always</li> <li>— Fosters an environment of inclusion, safety and belonging</li> <li>— Builds and nurtures meaningful relationships with people of all backgrounds</li> <li>— Embraces our 'One Firm' approach, involving those with different backgrounds, experiences, and capabilities</li> <li>— Actively listens and acts with empathy to drive better outcomes</li> </ul>	<p style="text-align: center;"><b>For better</b></p> <ul style="list-style-type: none"> <li>— Puts the work we do every day into context</li> <li>— Generously helps out and cares for others</li> <li>— Acts today to strengthen the firm for the future</li> <li>— Does small things everyday that make a difference</li> <li>— Looks beyond themselves to make a broader impact – from the individual, to local communities, to the world at large</li> </ul>



# 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](http://www.kpmg.com/ACI)

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