



Utility Debt Securitization Authority Discussion with the Board of Trustees

Audit plan and strategy for the year ending December 31, 2023

With you today, December 11, 2023:

Edward Lee – Lead Audit Engagement Partner

Todd Fowler – Client Service Partner

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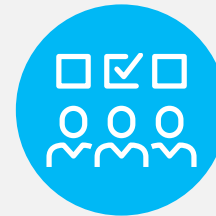
Delivering a better audit experience drives us

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

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



Quality



Experience



Productivity



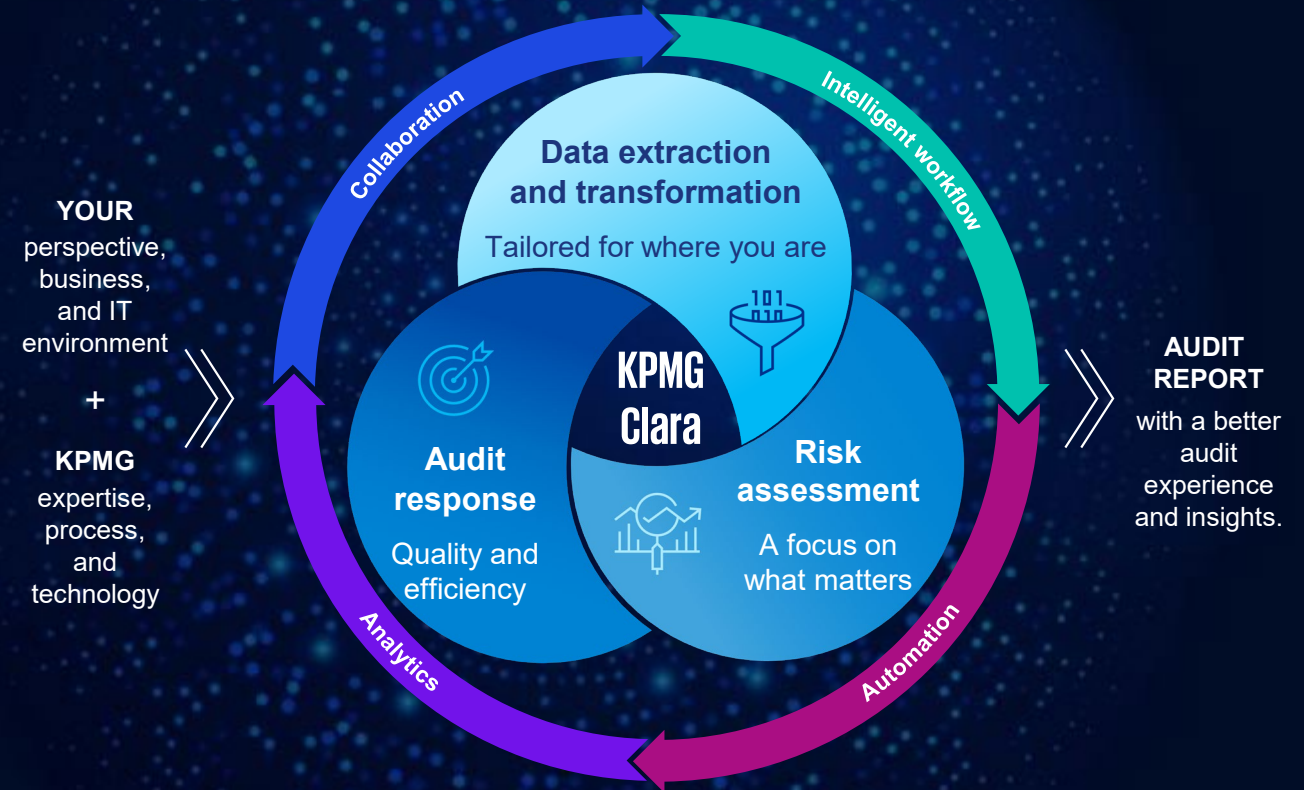
Insights

An audit aligned to you

Your business is unique. We begin by listening—helping us better understand you and your organization in order to align our efforts.

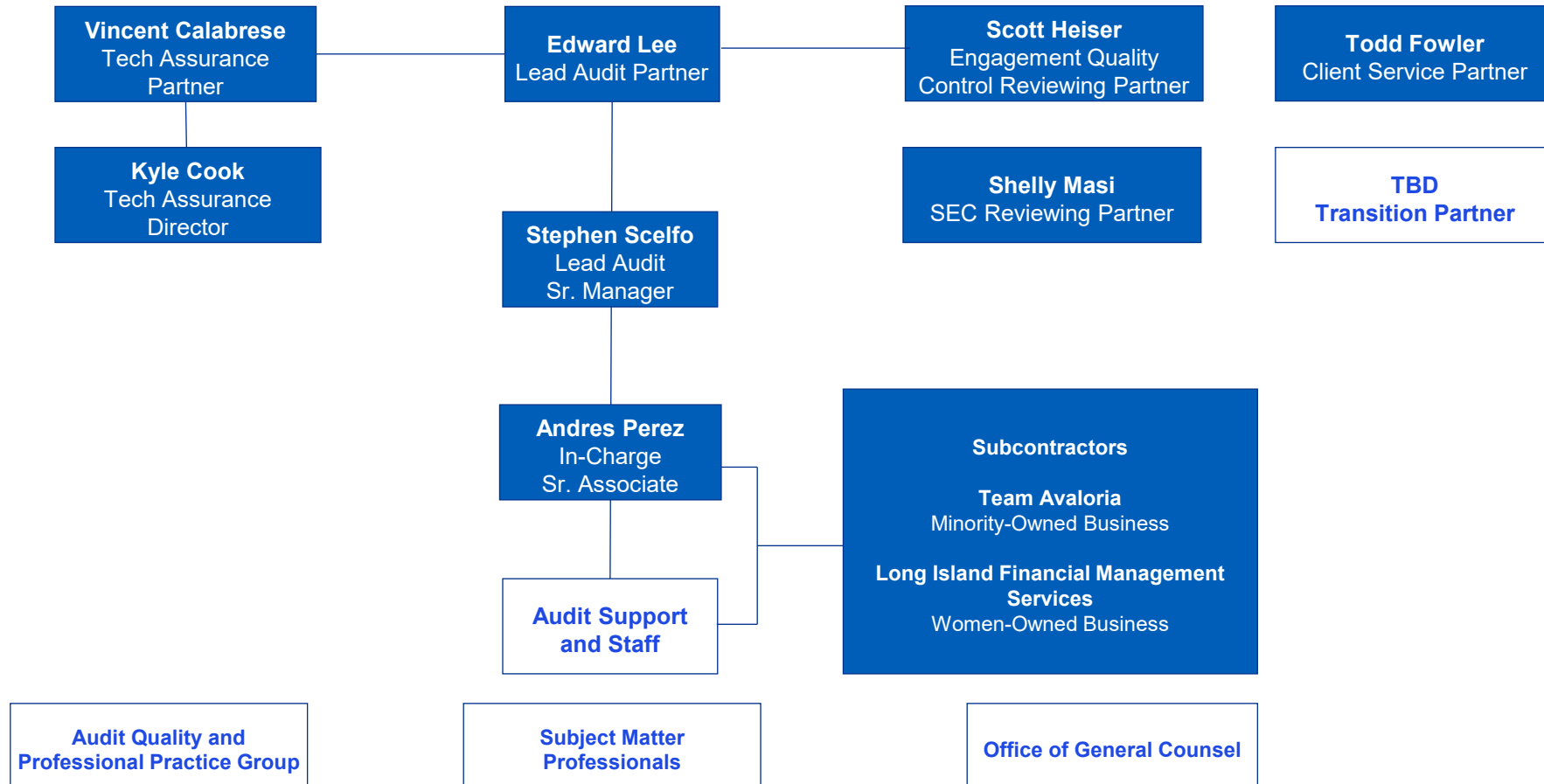
Powered by our [KPMG Clara](#) platform, we bring clarity to the audit through a modernized approach that effectively coordinates the audit, powers our process with automation and analytics, and supports clear and transparent communication through the cycle.

KPMG Clara



Client service team

Team members with continuity are designated in blue.



Scope of the audit

What's different?

Our audit of the basic financial statements of UDSA as of and for the year ended December 31, 2023, will be performed in accordance with auditing standards generally accepted in the United States of America.

Performing an audit of the basic financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.

Other Reports

- Investment Guidelines Compliance Report
- Agreed-upon Procedures Report related to UDSA's Restructuring Property Servicing Agreements (7 reports)





Required communications to the Board of Trustees

Prepared on: December 1, 2023

Presented on: December 11, 2023



Our timeline

March – May

Planning and risk assessment

- Debrief on prior year audit with management
- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of UDSA and its environment

June – October

Interim

- Ongoing risk assessment procedures, including:
 - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Identify IT applications and environments
- Inquire of the Board of Trustees, management and others within UDSA about risks of material misstatement

November – December

Interim

- Communicate audit plan
- Evaluate design & implementation (D&I) of general IT and automated controls
- Evaluate D&I of entity level controls and process level controls for certain processes
- Perform TOE of relevant process level, general IT, and entity-level controls, where applicable
- Evaluate control deficiencies identified to date
- Perform interim substantive audit procedures
- Perform process walkthroughs and identification of process risk points for certain processes
- Coordinate with Internal Audit

January – March

Year-end

- Complete control testing for remaining process level, general IT, and entity-level controls, where applicable
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Obtain written representation from management
- Review financial statement disclosures
- Present audit results to the Board of Trustees and perform required communications
- Issue audit reports on basic financial statements and agreed upon procedure reports

Filing date: Issue audit reports on financial statements and agreed-upon procedures on or before March 30, 2024.

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

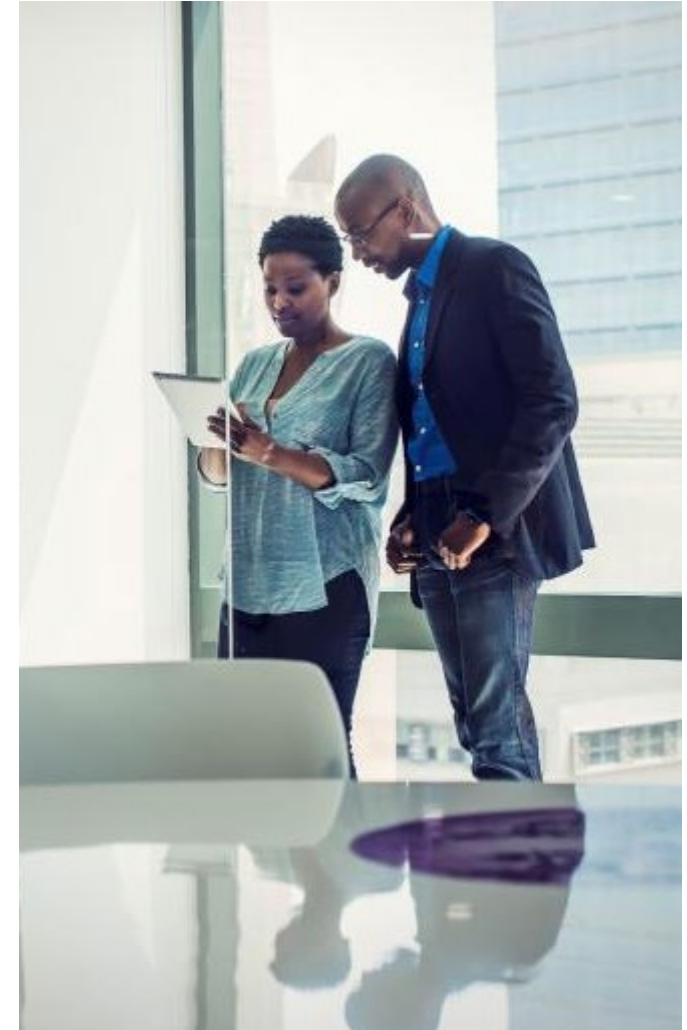
<p>Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.</p>	<p>Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.</p>	<p>Judgments about materiality involve both qualitative and quantitative considerations.</p>
<p>Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.</p>	<p>Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements.</p>	<p>Judgments about the size of misstatements that will be considered material provide a basis for</p> <ol style="list-style-type: none">Determining the nature and extent of risk assessment procedures;Identifying and assessing the risks of material misstatement; andDetermining the nature, timing, and extent of further audit procedures.

Risk assessment: Significant risks

Significant risk	Susceptibility to:	
	Error	Fraud
<p>Management override of controls</p> <p>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 otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.</p>		Yes

Significant Audit Areas
Revenue recognition
Long-term debt
Restructuring property, including 2023 Securitization
Marketable securities (estimate)

Relevant factors affecting our risk assessment
<ul style="list-style-type: none"> • Size and composition of the account • Volume of activity processed through the account • Nature of the account and disclosure



Cybersecurity considerations

Factors and forces elevating cybersecurity risks:

- Shifts to remote work, online customer engagement, digital finance – “remote everything”
- Acceleration of digital strategies/transformation
- Surge and sophistication of cyber attacks
- Risks, vulnerabilities posed by third-party vendors

Your considerations for robust oversight

- Focus on internal controls, access, and security protocols
- Increase diligence around third-party vendors
- Insist on a robust data governance framework
- Obtain cyber expertise at board or upper management level
- Provide ongoing cyber awareness training to leaders in the company
- Trust but verify the information reported by the Chief Information Officer function and by third-party cyber service providers

Our audit responsibilities

- Evaluate risks of material misstatement resulting from, among other things, unauthorized access to financial reporting systems (e.g., IT applications, databases, operating systems)
- Determine whether there is a related risk of fraud
- Develop audit approach based on risk assessment
- If a cybersecurity incident occurs, we understand and evaluate its effect on our audit approach, as well as evaluate management’s assessment of the effect on the financial statements and disclosures

Involvement of others

Audit of financial statements	Extent of planned involvement
Internal Audit	Inquiries of Internal Audit, Collaboration on Walkthrough Process, Review Internal Audit Plan, and Review results of Internal Audits performed

Newly effective accounting standards

Effective for calendar year-end companies in 2023

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62

Effective for calendar year-end companies in 2024

GASB Statement No. 101, Compensated Absences

None of the above referenced GASBs are expected to have a material impact on the basic financial statements of USDA

Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and KPMG each play an important role.

System of Independence Quality Control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)
- New officers or directors with the ability to affect decision-making, individuals who are beneficial owners with significant influence over the Company, and persons in key positions with respect to the preparation or oversight of the financial statements

Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- UDSA or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.

Responsibilities



Management responsibilities

- Communicating matters of governance interest to those charged with governance.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



KPMG responsibilities – objectives

- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.



KPMG responsibilities – other

- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
- Withdraw from the audit engagement when possible under applicable law or regulation;
- Communicate the circumstances to those charged with governance, and
- Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.

Inquiries

Are Board of Trustees 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 the Board of Trustees 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 Board of Trustee's views about fraud risks at UDSA?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and the Board of Trustees?
- 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 board of Trustee's attitudes, awareness, and actions concerning (a.) UDSA's 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?

FY 2023 audit fees

Fees for the FY 2023 audit will be billed according to the Cost Proposal dated May 15, 2019, and amended June 23, 2019

UDSA Financial Statements

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Investment Guidelines Compliance Report
- Agreed Upon Procedures related to the UDSA's Restructuring Property Servicing Agreements (7 reports)
- Required Communications to the Board of Trustees
- Management letter, if necessary

2023 Fees for above deliverables

Per Cost Proposal





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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Appendix



U.S. Audit Quality, Transparency, and Impact reports



- Interactive dashboard highlights key quality metrics
- Details KPMG's investment in our audit approach, people, technology, quality management system and the future of audit

Audit Quality 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

Transparency Report



- Provides annual update on our progress on meeting goals aligned to People, Planet, Prosperity, and Governance
- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

KPMG Impact Plan

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: \[audit.kpmg.us/auditquality\]\(https://audit.kpmg.us/auditquality\)](#)

Our Values

Integrity

We do what's right.

- Has a moral compass that does not waver in any situation, big or small
- Does what they say and takes accountability when they don't
- Is honest and forthright, even when it's difficult
- Is not a bystander; takes action in the moment to do what's right and speak up
- Upholds the letter and spirit of our ethical and professional standards, even under pressure

Excellence

We never stop learning and improving.

- Demonstrates a passion for quality
- Pushes individuals and teams to reflect and evolve, learning from both success and failure
- Shares knowledge patiently and generously
- Advocates for and role models life-long personal, technical and professional growth
- Invites feedback and constructive challenge, and promptly acts on it

Courage

We think and act boldly.

- Thinks big, pursuing innovative ideas and solutions
- Openly questions actions inconsistent with our values, even when it isn't popular
- Engages in candid conversations, caring personally and challenging directly
- Has a bias for action and makes tough decisions
- Acknowledges mistakes and limitations; asks for help

Together

We respect each other and draw strength from our differences.

- Treats everyone with respect and dignity, always
- Fosters an environment of inclusion, safety and belonging
- Builds and nurtures meaningful relationships with people of all backgrounds
- Embraces our 'One Firm' approach, involving those with different backgrounds, experiences, and capabilities
- Actively listens and acts with empathy to drive better outcomes

For Better

We do what matters.

- Puts the work we do every day into context
- Generously helps out and cares for others
- Acts today to strengthen the firm for the future
- Does small things everyday that make a difference
- Looks beyond themselves to make a broader impact – from the individual, to local communities, to the world at large