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

Basic Financial Statements
and Required Supplementary Information

December 31, 2015 and 2014

(With Independent Auditors' Report and Report
on Internal Control and Compliance Thereon)

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

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Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (unaudited), the basic financial statements, and the notes to the financial statements.

The management's discussion and analysis provides an overview of the Utility Debt Securitization Authority's (UDSA) financial information for the years ended December 31, 2015 and 2014 and the period ended December 31, 2013. The discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section. The UDSA's basic financial statements are presented following the accrual basis of accounting.

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 statutory 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 customer bills. On October 3, 2013, the Authority's Board adopted Financing Order No. 1. On June 26, 2015, the Authority's Board adopted Financing Orders No. 2, No. 3 and No. 4, which allow the UDSA to issue Restructuring Bonds prior to December 31, 2016. All such financing orders are substantively the same and each permits the UDSA to issue Restructuring Bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law. Each such financing order authorizes Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order.

On December 18, 2013, pursuant to Financing Order No. 1, the UDSA issued $2.022 billion of 2013 Restructuring Bonds. On October 27, 2015, pursuant to Financing Order No. 2, the UDSA issued $1.002 billion of 2015 Restructuring Bonds.

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

Financial Condition Overview

The UDSA's Statements of Net Position as of December 31, 2015, 2014, and 2013 are summarized below:

Assets		**2015**	**2014**	**2013**
			(Amounts in thousands)	
Current assets	$	51,373	61,143	10,513
Noncurrent assets		3,174,571	2,032,101	2,128,085
Total assets	$	3,225,944	2,093,244	2,138,598
Liabilities and Net Position				
Current liabilities	$	73,020	18,644	93,173
Noncurrent liabilities		3,127,322	2,019,340	2,048,196
Net position – restricted		25,602	55,260	(2,771)
Total liabilities and net position	$	3,225,944	2,093,244	2,138,598

2015 Compared to 2014

The primary changes in the UDSA's statement of financial condition as of December 31, 2015 and 2014 were as follows:

Assets

Current assets decreased by $10 million compared to 2014 due primarily to the lower accounts receivable balance resulting from the decrease in the Financing Order No. 1 Restructuring Charge imposed on utility customer bills as a direct result of the lower debt service payments on the Series 2013 Restructuring Bonds.

Noncurrent assets increased by $1.1 billion compared to 2014 due to the issuance of the additional Restructuring Property under Financing Order No. 2 (discussed in note 1 to the Basic Financial Statements.)

Total Liabilities and Net Position

Current liabilities increased by $54 million compared to 2014 due to higher scheduled maturities due within one year. Also contributing to the increase is higher accrued interest resulting from the October 2015 issuance of the 2015 Restructuring Bonds.

Noncurrent liabilities increased by $1.1 billion compared to 2014 due to the issuance of the 2015 Restructuring Bonds totaling $1.002 billion plus premium (discussed in note 2 to the Basic Financial Statements.)

2014 Compared to 2013

The primary changes in the UDSA's statement of financial condition as of December 31, 2014 and 2013 were as follows:

Assets

Current assets increased by $51 million compared to 2013 due to increased accounts receivable and cash balances resulting from the March 1, 2014 implementation of the Financing Order No. 1 Restructuring Charge imposed on the Authority's customer bills.

Noncurrent assets decreased by $96 million compared to 2013 due to the amortization of the Financing Order No. 1 Restructuring Property, which is directly related to the scheduled debt maturity dates of the Series 2013 Restructuring Bonds.

Total Liabilities and Net Position

Current liabilities decreased by $75 million compared to 2013 due to lower scheduled debt maturities due within one year.

Noncurrent liabilities decreased by $29 million compared to 2013 due to scheduled debt maturities plus the amortization of the related premium for the year ended December 31, 2014.

Results of Operations

The UDSA's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2015 and 2014 and from July 29, 2013 (inception) through December 31, 2013 are summarized as follows:

		2015	2014	2013
			(Amounts in thousands)	
Operating revenues	$	73,158	233,437	—
Operating expenses		18,108	96,730	—
Operating income		55,050	136,707	—
Interest charges and credits		(84,741)	(78,680)	(2,771)
Other income		33	4	—
Change in net position		(29,658)	58,031	(2,771)
Restriced net position – beginning of year		55,260	(2,771)	—
Restricted net position – end of year	$	25,602	55,260	(2,771)

2015 to 2014

Net Position

The net position and changes in net position reflect the timing differences between the accrual-based accounting required under generally accepted accounting principles and the ratemaking treatment followed by the UDSA. The UDSA's Restructuring Charge is set at an amount sufficient to recover the debt service payments and other cash operating expenses that the UDSA incurs in any given year, which may differ from the accrued revenues and expenses recognized. As shown below, the relevant information from the Statement of Cash Flows demonstrates the UDSA has been recovering a stable and consistent amount of revenue sufficient to meet all debt service obligations. The under recovery of net cash from 2015 current operations occurred as an offset to the excess cash recovered in 2014.

		2015	2014	2013
			(Amounts in thousands)	
Net cash provided by operating activities	$	92,213	192,092	—
Interest paid		(86,286)	(90,029)	—
Redemption of long-term debt		(15,000)	(90,000)	—
Net cash provided by (used in) current year	$	(9,073)	12,063	—

Operating revenues

Revenues decreased by $160 million compared to 2014 due primarily to the decrease in the Financing Order No. 1 Restructuring Charge from $0.013518 per KWh in 2014 to $0.003914 per KWh in 2015. The Restructuring Charge is directly related to 2013 Restructuring Bonds' scheduled debt service payments. Also contributing to the decrease was the timing of the accrual for unbilled revenue.

Operating expenses

Operating expenses decreased by $79 million compared to 2014 due primarily to lower amortization of the Financing Order No. 1 Restructuring Property, which is amortized on a proportionate basis annually based on the total principal payments due for the Restructuring Bonds. The UDSA's debt principal payments due in 2015 decreased by $75 million compared to 2014.

Interest charges and credits

Interest charges and credits increased by $6 million compared to 2014 due primarily to the October 2015 issuance of the 2015 Series Bonds, which resulted in two months of interest expense.

2014 to 2013

Operating revenues

Operating revenues increased by $233 million compared to 2013 due to the March 1, 2014 implementation of the Financing Order No. 1 Restructuring Charge imposed on the Authority's customer bills.

(Continued)

Operating expenses

Operating expenses increased by $97 million compared to 2013 due primarily to higher amortization of the Financing Order No. 1 Restructuring Property, which is recognized on a proportionate basis based to the total principal payments due on the related Restructuring Bonds. For the period ended December 31, 2013, no principal payments were due, and therefore, no amortization was recorded.

Interest charges and credits

Interest charges and credits increased by $76 million compared to 2013. The period ended December 31, 2013 included 13 days of interest and amortization of both upfront financing costs and premium recognized on the issuance of debt under Financing Order No.1, which occurred on December 18, 2013.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $33.5 million, $22.5 million and $10.5 million at December 31, 2015, 2014 and 2013, respectively. The higher balance in 2015 compared to 2014 is due to the additional reserves required for the 2015 bond issuance (discussed in note 1 to the Basic Financial Statements).

Bond Ratings

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

	Investment ratings		
	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)

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. If you have any questions about this report or need additional 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.

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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, 2015 and 2014, 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, 2015 and 2014, 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 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 30, 2016 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.

KPMG LLP

New York, New York
March 30, 2016

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

Statements of Net Position

December 31, 2015 and 2014

Assets		**2015**	**2014**
		(Amounts in thousands)	
Current assets:			
Restricted cash	$	33,518	22,483
Accounts receivable		17,201	38,338
Prepaid assets		322	322
Total current assets		51,041	61,143
Noncurrent assets:			
Restructuring property – Financing Order No. 1		2,003,282	2,018,955
Restructuring property – Financing Order No. 2		1,152,277	—
Regulatory asset – unamortized debt issuance costs		19,012	13,146
Total noncurrent assets		3,174,571	2,032,101
Total assets	$	3,225,612	2,093,244
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	60,000	15,000
Accrued interest		12,257	3,595
Accrued expenses		431	49
Total current liabilities		72,688	18,644
Noncurrent liabilities:			
Long-term debt		3,127,322	2,019,340
Restricted net position		25,602	55,260
Total liabilities and restricted net position	$	3,225,612	2,093,244

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2015 and 2014

		2015	2014
		(Amounts in thousands)	
Operating revenue	$	73,158	233,437
Operating expenses:			
Amortization of restructuring property		15,672	94,035
Uncollectible expense		846	1,067
Servicing and administrative fees		1,590	1,628
Total operating expenses		18,108	96,730
Operating income		55,050	136,707
Other income		33	4
		55,083	136,711
Interest charges:			
Interest expense		94,948	88,129
Amortization of restructuring bond premium and issuance costs		(10,207)	(9,449)
Total interest charges		84,741	78,680
Change in restricted net position		(29,658)	58,031
Restricted net position, beginning of year		55,260	(2,771)
Restricted net position, end of period	$	25,602	55,260

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Years ended December 31, 2015 and 2014

		2015	2014
		(Amounts in thousands)	
Cash flows from operating activities:			
Operating revenues received	$	93,449	194,031
Paid to suppliers:			
Servicing and administrative fees		(1,236)	(1,939)
Net cash provided by operating activities		92,213	192,092
Cash flow from investing activities:			
Restructuring property		(1,152,277)	—
Earnings received		34	3
Net cash (used in) provided by investing activities		(1,152,243)	3
Cash flows from financing activities:			
Proceeds from issuance of restructuring bonds		1,179,662	—
Interest paid		(86,286)	(90,029)
Scheduled payment of long-term debt		(15,000)	(90,000)
Bond issuance and bond administration costs		(7,311)	(96)
Net cash provided by (used in) financing activities		1,071,065	(180,125)
Net increase in cash and cash equivalents		11,035	11,970
Restricted cash and cash equivalents at beginning of year		22,483	10,513
Restricted cash and cash equivalents at end of the period	$	33,518	22,483
Reconciliation to net restricted cash provided by operating activities:			
Operating income	$	55,050	136,707
Adjustments to reconcile operating income to net restricted cash provided by operating activities:			
Amortization of restructuring property		15,672	94,035
Changes in operating assets and liabilities:			
Prepaid assets and accounts payable		354	(312)
Accounts receivable		21,137	(38,338)
Net restricted cash provided by operating activities	$	92,213	192,092

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, body corporate and politic, 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 allows the Long Island Power Authority (Authority) to retire a portion of its outstanding indebtedness in order to provide savings to the Authority's utility customers on a net present value basis. The Authority is the owner of the 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), and is responsible for facilitating the supply of electricity to customers within the Service Area.

(b) Financial Reporting Entity

The Securitization Law prohibits the UDSA from engaging in any other 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. 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 and the notes to the financial statements cover the years ended December 31, 2015 and 2014.

Under GASB 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.

(c) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, 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.

(Continued)

(d) Accounting for the Effects of Rate Regulation

The UDSA is subject to the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 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.

(e) Restricted Cash

Restricted cash consists 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 that address the legal and contractual requirements including that investments must be matched to meet the debt service obligations of the bonds.

The 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 Accounts for the bonds consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, Reserve Subaccounts, and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts, which will be recognized collectively as the Collection Account.

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. Accordingly, as of December 31, 2015 and 2014, the balance in the Series 2013 Reserve Subaccount totaled $10.1 million.

The Reserve Subaccount related to the Series 2015 Restructuring Bonds was established with two subaccounts – the Operating Reserve Subaccount and the Debt Service Reserve Subaccount. The Operating Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued. The Debt Service Reserve Subaccount was established at a reserve level of 1.50% of the aggregate principal amount of the 2015 Restructuring Bonds then outstanding less the minimum principal amount due on any subsequent scheduled payment date. Accordingly, as of December 31, 2015, the balance in the Series 2015 Reserve Subaccount totaled $20 million.

As of December 31, 2015 and 2014, 100% of restricted cash is invested in cash or money-market mutual funds with average maturities of less than three months.

The Trustee shall have sole dominion and exclusive control over all money in the Collection Accounts 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 the Collection Accounts for the purpose of making deposits to and withdrawals. Funds in the Collection Accounts shall not to be commingled with any other moneys.

(f) Accounts Receivable

The UDSA receivables include amounts due from the Authority and represent the accrual of unbilled revenue to be received in the subsequent year. The Authority accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenue for the UDSA totaled $11 million and $16 million as of December 31, 2015 and 2014, respectively.

(g) Regulatory Assets – Unamortized Debt Issuance Costs

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 No. 62, to be collected over the life of the debt issuance to which they relate.

(h) 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 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 nonbypassable 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, Department of Public Service or any other regulatory body, including the Authority's Board. The Authority has lowered its 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 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 3.

On December 18, 2013, pursuant to Financing Order No. 1, the UDSA issued $2.022 billion of 2013 Restructuring Bonds and began imposing its Restructuring Charge effective March 1, 2014. On October 27, 2015, pursuant to Financing Order No. 2, the UDSA issued $1.002 billion of 2015 Restructuring Bonds and began imposing its Restructuring Charge effective January 1, 2016.

(i) Revenues

The UDSA records revenue for Restructuring Charges under the accrual method of accounting.

(j) Income Taxes

UDSA is a political subdivision of the State and, therefore, is exempt from federal, state, and local income taxes.

(k) Recent Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement is intended to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Statement No. 72 will take effect for periods beginning after June 15, 2015, and will not have a significant impact on the financial position or results of operations of the UDSA.

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015 and will not have a significant impact on the financial position or results of operations of the UDSA.

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. This Statement will change how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. Specifically, such component units must be "blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government." This Statement is effective for reporting periods beginning after June 15, 2016 and will not have a significant impact on the financial position or results of operations of the UDSA.

(2) Long-Term and Short-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, PSEG Long Island (the Authority's service provider), or any of their affiliates. 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.

On December 18, 2013, pursuant to Financing Order No. 1 adopted by the Authority Board's on October 3, 2013, the UDSA issued $2.022 billion of 2013 Restructuring Bonds. The UDSA used the proceeds of the 2013 Restructuring Bonds to purchase the 2013 Restructuring Property, including the 2013 Restructuring Charges. The 2013 Restructuring Property was pledged by the UDSA to the payment of the 2013 Restructuring Bonds. The Authority used the net proceeds from the sale of the 2013 Restructuring Property to retire debt and other obligations of the Authority. The 2013 Restructuring Property secures only the 2013 Restructuring Bonds. The refunding produced an approximate $132 million of net present value savings to the Authority's customers. The Restructuring Bonds have an average life of 14.3 years and an all in cost of 4.22%.

On October 27, 2015, pursuant to Financing Order No. 2, the UDSA issued $1.002 billion of 2015 Restructuring Bonds. The UDSA used the proceeds of the 2015 Restructuring Bonds to purchase 2015 Restructuring Property, including 2015 Restructuring Charges. The 2015 Restructuring Property was pledged by the UDSA to the payment of the 2015 Restructuring Bonds. The Authority used the net proceeds from the sale of the 2015 Restructuring Property to retire debt and other obligations of the Authority. The 2015 Restructuring Property secures only the 2015 Restructuring Bonds and does not secure the 2013 Restructuring Bonds. The refunding produced an approximate $128 million of net present value savings to the Authority's customer. The Restructuring Bonds have an average life of 15.61 years and an all in cost of 4.86%.

The issuance of the 2015 Restructuring Bonds reduced the available amount of Restructuring Bonds permitted to be issued by the Securitization Law, and pursuant to Financing Order No. 3 and Financing Order No. 4, to $1.476 billion.

Interest payments on the 2013 and 2015 Restructuring Bonds are paid semiannually 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.

Below is the UDSA's schedule of capitalization for the period ended December 31:

	Year of maturity	Interest rate	2015	2014
			(Amounts in thousands)	
UDSA Restructuring Bonds:				
Series 2013T	2019–2023	2.04%–3.44%	$ 482,934	482,934
Series 2013TE	2016–2039	5.00	1,434,390	1,449,390
Series 2015	2021–2035	3.00%–5.00%	1,002,115	—
Total			2,919,439	1,932,324
Unamortized premium			267,883	102,016
Less current maturities			(60,000)	(15,000)
Total long-term debt			$ 3,127,322	2,019,340

The debt service requirements for the UDSA's bonds as of December 31, 2015 are as follows:

Due	Principal	Interest	Annual debt service requirements
	(Amounts in thousands)		
2016	$ 60,000	140,206	200,206
2017	13,148	131,369	144,517
2018	46,433	130,931	177,364
2019	130,761	129,492	260,253
2020	106,392	126,329	232,721
2021–2025	437,275	585,429	1,022,704
2026–2030	894,270	439,843	1,334,113
2031–2035	768,980	216,565	985,545
2036–2039	462,180	57,282	519,462
Total	$ 2,919,439	1,957,446	4,876,885

(3) 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 entered into by the Authority and the UDSA, concurrently with the issuance of the Restructuring Bonds, 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 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 (true-up adjustments) at least annually and, if determined by the Servicer in connection with a midyear review process to be necessary, semiannually 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.

Under the Finance Orders, the Authority withholds from the Restructuring Charge collections an annual servicing fee equal to 0.05% of the initial balance of bonds issued.

(4) Subsequent Events

Approximately $637 million par value of Series 2016A Restructuring Bonds plus approximately $147 million of premium were issued to refund a portion of the Authority's existing debt. This refunding will produce a net present value savings to the Authority's customers of approximately $115 million.

In connection with the preparation of the financial statements, management has evaluated subsequent events from December 31, 2015 through March 30, 2016, which was the date the financial statements were available for issuance, and concluded that no additional disclosures were necessary.

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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, 2015 and 2014, 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 30, 2016.

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, 2015, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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 have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

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. We consider the deficiency described below to be a significant deficiency.

PSEG Long Island manages and hosts the Long Island Power Authority's billing and customer information technology systems (CAS & EBO) that is used for billing the UDSA Restructuring Charge. A significant deficiency was identified over the monitoring controls of access to the development and production environments resulting in the risk that certain individuals could develop changes to the system configuration and put those changes into production without appropriate monitoring or detective controls in place.

Management's Response

During KPMG's audit, a separation of duties deficiency was identified. It is PSEG Long Island's position that the current System Administrator access is a standard practice and required to perform maintenance activities in CAS/EBO. Entitlement reviews within Customer Operations control all CAS/EBO access and validates each user's need with appropriate management. In addition, there are mitigating financial controls that PSEG Long Island's Finance team performs including analytical reviews of monthly revenue variances by customer segment to review variances to plan as well as reviews of customer usage and revenue within Customer Operations.

PSEG Long Island did internally review and confirm that all file access and changes performed by the System Administrators who do have access to both development and production environments are being logged. PSEG Long Island already monitors the daily "RACF Violation" and "Special Access" reports which are captured in the PageCenter tool. Also, all moves from development to production are approved and tracked through the PSEG Long Island change management process.

As a result of the above limited exposure, Information Technology monitoring, and mitigating financial controls, PSEG Long Island views this control deficiency as a low risk to the UDSA, however PSEG Long Island has agreed to institute an additional control to monitor System Administrator activity. Our mainframe security team is in the process of documenting a procedure for further monitoring and we are estimating that it will take 30-60 days to have the custom security report in place to support the monitoring of System Administrator activities.

Response to Finding

Management's response to the significant deficiency identified in our audit is described previously. The response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

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.

KPMG LLP

New York, New York
March 30, 2016